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OBJECTS

The Institute of Public Affairs is
a non-profit educational
organisation financed by business
enterprises and people throughout
Australia to study economic and
industrial problems. It was
launched in 1943. The basic aim of
the I.P.A. is to advance the cause
of free business enterprise in
Australia. In pursuit of this aim it
is endeavouring:—
1. To inform the Australian public
of the facts of our economic system
and to raise the level of economic
literacy in Australia.
2. To work always for a full and
friendly understanding between
employers and employees and for
good relations throughout industry.
3. To study the means by which
private business enterprise can be
made to operate better in the
interests of all sections of the
Australian people.

INSTITUTE OF PUBLIC AFFAIRS
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TO OUR READERS

It is clear from letters we have received that the ‘new look’ I.P.A. Review initiated last year has struck a responsive chord.

The range of articles has been broadened and increasing use is being made of contributors who are noted experts in their fields.

In addition we are giving some emphasis in Review to overseas ‘free market’ thinking and developments.

In this Review we publish articles by two distinguished overseas writers, Ken Minogue in the U.K. and Professor Wildavsky in the U.S. Also, Washington-based Australian journalist, Peter Samuel, assesses some of President Reagan’s welfare policies.

We believe that an increasing number of people are feeling that many of the matters which are giving them increasing concern are not being adequately explored in other publications.

Along with many other issues there is the ever-increasing burden of taxes, the growth of bureaucracy, the interference in our lives from Government and special interest groups, the threats to the family and the belittling of values which are essential for a prosperous and free society.

The aim of “Review” is to give a well-researched point of view on matters that concern us all. The research report, for example, by a Melbourne actuary, John Colly, on Public Service invalidity provides some important insights into these costly superannuation schemes.

In the current year we hope to increase the circulation of Review (at present 21,000) among the wider community.

You can help us in our work, and at the same time ensure that our views are spread more widely, by encouraging friends and acquaintances to return the subscription form on page 122.

Rod Kemp
Director

Contents
100 Contributors
101 Editorial: Have We Caught the British Disease?
103 Angus Jones
104 Church Commissions and Social Irresponsibility
105 Failure of African Economic Development
107 Shopping Hours: Government Should Not Take Sides
108 I.P.A. Council Changes
109 The Quarter Million Dollar Man
115 Malcolm Fraser and the Size of Government
120 Public Sector Inflation
123 Anyone for Rent Control?
126 Social Security and Work Incentives
129 The Seven Deadly Rigidities
134 Booklet: Profits and Employment
135 Constitutional Expenditure Limitation
138 What Sort of Bill of Rights?
143 Ideas and Insights
146 Workfare

SUBSCRIBER ADVICE Page 122

Contributed articles by noted authorities in Australia and overseas dealing with matters of public interest are published in IPA Review. This Institute is not necessarily in full agreement with the views expressed in these articles. They are published in order to stimulate free discussion and inquiry.
Contributors

Jacob Abrahami: A Melbourne-based economic consultant. He has lectured at Melbourne University. His main academic interests are in the area of income distribution and public finance.

Dr. Robert Albon: Lecturer in public economics at the Australian National University. Prior to joining the A.N.U. in 1976, he worked with the Industries Assistance Commission in Canberra. His research interests are largely in the area of applied microeconomics and he has published a number of scholarly articles on applied monetary economics, milk marketing and the rental housing market.

John Collins: A consulting actuary with Melbourne-based firm, Campbell and Cook. He is a Fellow of the Faculty of Actuaries (Edinburgh) and a Fellow of the Institute of Actuaries of Australia.

Dr. Michael James: Senior lecturer in politics at La Trobe University. Dr. James has edited a book, “Constitutional Challenge” — a collection of readings on the Australian Constitution and Parliamentary Practice.

Dr. Ken Minogue: A reader in political philosophy at the London School of Economics. He is a graduate of Sydney University and London School of Economics and an internationally respected writer and commentator. His next book “Pure Theory in Ideology” will be published at the end of 1983.

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

Professor Aaron Wildavsky: Professor of Political Science and Public Policy at the University of California, Berkeley, and a member of the Drafting Committee of the National Tax Limitation Committee. His book on “How to Limit Government Spending” was published in 1980 by the University of California Press.
EDITORIAL:  
Have We Caught the British Disease?

The Keating Budget seems to have had a better reception than it deserves. On the over-riding test of economic strategy (taken in conjunction with the Government’s support of full wage indexation) it fails alarmingly.

The economy faces a continuation of high inflation, on the Budget’s own estimates an increase in unemployment, a huge expansion of public sector claims on resources, a mountainous burden of taxes, and an increase in the already suffocating extent of government regulations.

Largely because of the media build-up, the public has come, rightly or wrongly, to look upon Budget night as a great occasion. It is an occasion which should have been seized upon by the Government not just to give a cold and too technical recital of the depressing facts of the economic situation, but to fulfil its responsibility for leadership, to state what will be demanded of the nation if it is to extricate itself from the economic morass in which it is engulfed, and to define a strategy which at least offers a ray of hope that the long looked-for improvement, if not just around the corner, will not be indefinitely postponed.

The Budget Speech did none of these things.

What one is entitled to expect in the opening paragraphs of a budget speech is not just a recital of facts, which in any case, are already well known, but a rational analysis of the causes of the nation’s economic dilemmas. There is no attempt at such an analysis.

The Government attempted to load almost the entire responsibility for our economic difficulties onto its predecessors, in the process downgrading the savage impact of a major world recession. There is no hint that the Government has reaped some benefit from the wages pause — which it has unwisely abandoned before its advantages for the economy could be fully realised.

But, much more important, there is no mention of the two basic distortions in the economy which, apart from the world recession and the drought, are largely at the root of our present problems. These are the steep growth in the “wage share” at the expense of the “profit share”, and of the public sector “take” of available resources (with its concomitant of an ever-increasing tax burden) at the expense of the productive private sector. Indeed, these two distortions will be exacerbated by the Budget and by the wage policy of the Government.

Wrong road to recovery

For the next twelve months, the Australian people, on the Budget’s own predictions have little to hope for: except the privilege of paying more taxes so that the Government can redistribute income, according to its conceptions of social equity, to the disadvantage mainly of business, the elderly, and the prudent who have been so misguided as to save for
their own retirement or their children’s education, and the unemployed genuinely looking for work. During 1983/84 the public sector share of the national cake is to increase to an all-time high of some 45 percent, inflation is likely to remain at close to 10 percent (U.S.A. now 2.4 percent and Britain less than 5 percent) and unemployment, far from being reduced, will rise.

The road to economic recovery is, in truth, precisely in the opposite direction to the one the Government is taking not only through the current budget but through the May mini-budget, and measures such as wage indexation.

Australia is now exhibiting all the signs of having contracted the dreaded British disease.

The Budget has given the economy a further push down a slippery slope from which we will eventually be compelled to endeavour to clamber back to the safe ground of economic sanity — a task which the Thatcher Government in Britain is now engaged in and which is proving to be anything but easy. In fact, Australia is now exhibiting all the signs of having contracted the dreaded “British Disease,” a disease which in the ‘seventies led Britain to be called “the sick man of Europe.” Unless we act quickly and sensibly it is by no means beyond the bounds of possibility that Australia will shortly be stigmatised as “the sick man of Asia”.

“British disease”

It is worthwhile listing the main symptoms of the “British disease” so that readers can judge for themselves whether Australia stands in danger of being afflicted with the same deadly illness. For the symptoms named below we have drawn largely from an article written for “Review” in 1975 by Graham Hutton, a leading British economist and one-time assistant editor of “The Economist.”

- A year-by-year expanding public sector
- A diminishing private sector
- Punitive and increasing taxation
- Spread of tax evasion and avoidance
- Steeply mounting charges by government instrumentalities
- The multiplication of “quangos”
- A swollen bureaucracy and excessive government regulation
- Increasing investment and employment in the public sector
- Falling or static investment and employment in the private sector
- Special financial privileges (i.e. pace-setter wages and salaries and retirement benefits) for public sector employees
- Uneconomic labour costs extorted by powerful monopolistic unions
- Industrial over-manning
- Poor profitability in the private sector
- Industries unable to compete internationally
- Ballooning welfare expenditures in their multifarious forms
- Declining educational standards
- And overall:
  - double digit inflation
  - high unemployment
  - low productivity
  - slow or static growth

How do we make a beginning on the huge task which confronts us and which cannot for much longer be evaded? What do we do?

Graham Hutton has given the answer in the article referred to above.

“It consists in revising, reforming, revitalising the attitudes of the political
parties and publicists, employers and employees in their organisations, and the overwhelmingly decent and reasonable householders, en masse, towards the self-respect of good workmanship, towards self-dependence in more ways, towards less dependence on “they” in town halls and other public offices, towards the advisability of good profitability in the private productive sector, and towards cost consciousness and economy (and, indeed, immediate reduction) in the public sector.”

Angus Jones, C.M.G.

The Council wishes to place on record its appreciation of the services given by Mr. Angus Jones as a member of the Institute’s Council from 1954 to 1983.

Angus Jones, who died last August, was a member of the Editorial and Executive Committee from 1954 to 1974 and Chairman of the Committee for seventeen years. He gave outstanding leadership in the Institute's affairs.

His considerable responsibilities as Chairman and Managing Director of Mobil Oil Australia Limited did not prevent him, over this long period, from giving unstintingly of his time and energies to the work of the Institute, and of the Executive Committee in particular, and from maintaining a close, personal interest in the Institute's publications.

In recognition of his contribution to the Institute he was made a Life Member of I.P.A. in 1981.

Angus, as he was affectionately known throughout Melbourne’s business circles, was the possessor of an exceptionally buoyant and cheerful personality, which endeared him to his associates in the I.P.A. and beyond. More than that, his judgements on affairs were invariably wise and well-balanced.

He will be greatly missed by his many friends and business colleagues. We extend our deepest sympathy to his family.
I.P.A. COMMENTARY

Church Commissions and Social Irresponsibility

The Bishops and church leaders associated with the recently released report, "Changing Australia", should ask some hard questions of the authors.

The Report was prepared by the Anglican Social Responsibilities Commission, the Catholic Commission for Justice and Peace, the Commission on Social Responsibility of the Uniting Church, and the Australian Council of Churches.

Take the section on unemployment.

The Report states that "The present unemployment situation constitutes a major crisis for the Australian community".

With that we can all agree.

But the views advanced in the report on the causes and solutions of unemployment would leave most economists, Keynesian and Friedmanite (not to mention Paul Keating and John Howard) gasping in disbelief.

Certainly we can all agree with the Report that the world-wide recession has adversely affected the economy.

It is hardly credible, however, that the other main causes of unemployment are "the increased volume and movement of capital, the power of major banks and transnationals, the rate of development and introduction of new technology and militarisation".

In fact, the first three on this list — international capital, transnational corporations and new technology — are more likely to create employment than to hinder it.

It is not clear why militarisation is mentioned.

If the authors have in mind defence spending, it could be argued that these outlays, along with public sector deficits, are contributing to high interest rates, inflation and unemployment, although Keynesians might argue that public sector deficits help create employment.

The true causes of unemployment, such as the wage explosion, the decimation of profits, labour market rigidities (as discussed in Ken Minogue's article on page 129), government taxes and charges on the private sector, restrictive employment practices by unions, are not even mentioned.

With such an extraordinarily naive analysis of the causes of unemployment it is hardly surprising that the suggested solutions are wide of the mark.

The Government, the report argues, must "move to establish control over the Australian economy". However many economists and most businessmen would contend that the extent of government interference and regulation of the economy is already proving a major hindrance to employment-creating enterprise.

The next main proposal is that "we must have labour force and training programmes aimed at increasing the
number of jobs". But training programmes create job-seekers not jobs.

The report then argues that we should "direct resources to those areas where employment can be created". At best this proposal begs the question and misunderstands how the labour market works. To direct resources to one area means taking resources from another. There may be no net gain in employment.

Finally, the authors want new ways to distribute wealth and enable social participation. They ignore the fact that one of the chief reasons for high unemployment is the redistribution of the proceeds of industry away from profits to wages which has occurred in recent years, and the high taxes associated with redistributive policies.

The closest the report gets to a real issue, that of wage restraint, is in the sentence "We must develop a social wage (housing and health especially) that guarantees an acceptable standard of living .... to enable those with jobs to maintain living standards without wage and salary increases"

But the maintenance of living standards at a time of deep economic recession for those in employment is at the expense of the living standards of workers seeking, but unable to find, employment, and of other sections of the community.

The real trouble is that wage costs are so high that workers are being deprived of jobs.

In fact there is not a single practical recommendation which would enable Bishops and church leaders to have a real impact on the unemployment debate. They have been provided by the authors with what Paul Keating describes as "the politics of the warm inner glow". Many of the sentiments in the report have long been discarded, even by parties of the left, in most Western countries.

In view of the very poor standard of the analysis of the report on unemployment, the Bishops and church leaders should ask the authors:-
— What economic expertise was employed in preparing the report?
— Why did the report fail completely to address the key issue on which there is a consensus between both major political parties: the need to restore profitability to the private sector?
— Why did they ignore the impact of ever-increasing taxes and wage costs on the capacity of private enterprise to provide jobs?
— Why does the report focus on largely irrelevant issues and take an ideological rather than a realistic line?

Failure of African Economic Development

In contrast with the high growth economies in Asia, such as Taiwan, South Korea, Singapore, African economic development has largely been a disaster.

Since 1950 African economies south of the Sahara have had a lower growth rate of income per capita than all the less developed countries and, as the Table
below shows, in four countries (Chad, Ghana, Senegal and Uganda) there has been an actual decline in GNP per capita over a nineteen year period.

There are two proposed solutions to this African development crisis. One strategy proposal, by the Brandt Report, 'North-South, Programme for Survival' emphasises the need for massive injections of capital from industrialized countries. This strategy is generally supported by international organisations such as the OECD and agencies associated with the United Nations.

But this whole approach is now being challenged by those who argue that domestic policies, and in particular a willingness to encourage private enterprise, are key determinants in effecting improvements in living standards in under-developed countries.

For example, Australian aid expert, Dr. Derek Healey of Adelaide University, argues that the whole disastrous experience of African socialism, which includes agricultural collectivisation and centralized government economic planning, may now be coming to an end.

Dr. Healey points to a recent report released by the World Bank which argues that the basic problem of most African countries was an unwillingness to use market mechanisms as an allocator of resources.

"The belief has permeated African Governments and development agencies that physical controls can allocate resources effectively and can move economies in the desired direction.

This has been associated with a belief in the superior wisdom and efficiency of large-scale public enterprises in production and distribution over small-scale public or private enterprises".

Dr. Healey concludes, "For too long Africa has suffered from the misery and want induced by political ideologies. It is fervently to be hoped that a new breed of African technocrats with an understanding of economic relationships will soon put the ideologues in the dustbin of history".

**AFRICAN DEVELOPMENT HAS BEEN A DISASTER**

<table>
<thead>
<tr>
<th>Country</th>
<th>GNP per capita (S.U.S.) 1980</th>
<th>GNP per capita (Average Annual Growth %) 1950-60</th>
<th>GNP per capita (Average Annual Growth %) 1960-79</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Developing Countries</td>
<td>750(a)</td>
<td>2.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Africa South of the Sahara (b)</td>
<td>411</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Chad</td>
<td>120</td>
<td>-</td>
<td>-1.4</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>140</td>
<td>1.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Ghana</td>
<td>420</td>
<td>-0.4</td>
<td>-0.8</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>1,150</td>
<td>1.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Kenya</td>
<td>420</td>
<td>0.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Malawi</td>
<td>230</td>
<td>-</td>
<td>2.9</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1,010</td>
<td>1.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Sengal</td>
<td>450</td>
<td>-</td>
<td>-0.2</td>
</tr>
<tr>
<td>Sudan</td>
<td>470</td>
<td>3.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Tanzania</td>
<td>260</td>
<td>3.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Uganda</td>
<td>280</td>
<td>0.5</td>
<td>-0.2</td>
</tr>
<tr>
<td>Zaire</td>
<td>220</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Zambia</td>
<td>560</td>
<td>3.1</td>
<td>0.8</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>630</td>
<td>-</td>
<td>0.8</td>
</tr>
</tbody>
</table>

(a) including China with an estimated per capita income of $230 in 1978. (b) excluding South Africa.
Shopping Hours: Governments should not take sides

Freedom of shopping hours like other freedoms is usually taken for granted.

That is why overseas travellers would be surprised by the vigorous debate over shopping hours in Australia.

In most countries of Europe and in the U.S., detailed regulation of the Australian variety does not exist. The conflicts caused by political interference with markets are virtually non-existent.

In the U.S. Peter Samuel, correspondent for News Limited, writes:—

"The battles over the deregulation of shopping hours were won in most States decades ago. Sabbath trading restrictions were killed after being put to electors in referendums.

Statutory restrictions are now almost unknown so shopkeepers are generally free to adjust their shopping hours to the needs of the public. Those which do best in offering their products when people want to purchase them will thrive financially.

Like Australia, the movement of women into the workforce has been a major impetus for the expansion of night and weekend shopping. Interestingly, one facilitating factor in shopping hours liberalisation has been the generally acquiescent attitudes of labour unions.

I remember speaking to a union official a year ago who told me he had been involved in some of the campaigns in the 1950s to continue controls on shopping hours. He said 'It is a lost cause. People want to shop nights and weekends and our members want to work. We are responsive. We have had to adapt. We do not oppose long hours anymore. It is work for our members'."

In Paris, economist, Otto von Fieandt, says that shopping hours in Europe are determined more by custom than regulation.

In Paris, he points out, food shops are open until 7.00 p.m., but close for 2-3 hours at lunch-time. Supermarkets provide leeway for the late shopper, until 9.00 p.m. or so. Non-food shops close at 6.00 p.m.. A few still close at lunch-time, but the practice is diminishing. Department stores now often stay open late (until 9.00 p.m.) one day a week.

"Saturday is a full shopping day. An additional convenience is that individual food shops are generally open on Sunday mornings and, indeed, one of the pleasures of Paris is to walk and view the colourful displays of fruit, vegetables and other things set up in street stands, buy something and then adjourn for lunch.

What is true of France generally holds for countries of Latin culture: Spain, Italy. In countries of Germanic culture (Germany, Scandinavia), shops generally close
an hour earlier, but working hours are correspondingly shorter, so the shopper's convenience is the same."

Other countries have learnt that market forces left to themselves are better able to ensure satisfaction for consumers, shopkeepers and shop assistants alike.

And politicians have apparently learnt that they can avoid a lot of trouble by not siding with one group against the others.

New Appointments to the I.P.A. Council

The I.P.A. is pleased to announce the following appointments to the I.P.A. Council.

F. M. Bethwaite
J. D. Booth
M. D. Bridgland
D. J. Brydon
J. A. Calvert-Jones

T. Marcus Clark
L. J. Mangan
J. A. McIntosh
J. W. R. Pratt
N. E. Renton
The Quarter Million Dollar Man
(...and other aspects of public service invalidity)
by John Coils

The Commonwealth Government has already put into effect some significant policy initiatives on retirement incomes, with the objective of reducing claims on the Budget and directing assistance to those most in need. It is now time that Governments — State and Federal — looked at superannuation provisions in the public service, in particular at the very high rates of invalidity retirements.

What comes to your mind as the most likely cause of an employee retiring with a disability benefit? A bad back? Failing eyesight? Heart trouble? Where on the list would you expect to find mental ill-health?.

It may come as a shock to learn that one in every two of the recent invalidity pensions under the Victorian State Superannuation Schemes was granted on the grounds of 'mental illness or mental disorder'!

According to its Annual Report for the year ending 30th June 1982, the State Superannuation Board found that mental ill-health was the primary cause of 289 out of a total of 596 retirements on invalidity pension in that year. The Board noted its 'increasing concern' at the 'high incidence of invalidity retirement' and observed that 'measures have previously been taken to reduce the number of early retirements.'

Further concentration on the problem led to a 20% increase in the total number of invalidity pensions granted and no significant change in the proportion attributed to mental causes.

The Board's concern could hardly be described as misplaced. In a 1977-78 survey of Australian health, the Bureau of Statistics found that only 3% of all disablements were caused by mental disorders. Even allowing for different measurement criteria and instability of the data, there is a world of difference between 3% and 50%.

Youth invalidity

More telling still perhaps is an analysis of the proportion of mental ill-health pensioners to all invalidity pensioners within specific age-bands. The following table illustrates the point:

<table>
<thead>
<tr>
<th>Age at retirement</th>
<th>New mental ill-health pensioners to all new invalidity pensioners (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>1981/82</td>
</tr>
<tr>
<td>Under 30</td>
<td>50</td>
</tr>
<tr>
<td>30-39</td>
<td>74</td>
</tr>
<tr>
<td>40-49</td>
<td>55</td>
</tr>
<tr>
<td>50-59</td>
<td>41</td>
</tr>
<tr>
<td>60 and over</td>
<td>0</td>
</tr>
</tbody>
</table>

Thus, not only is mental disturbance rife in the Victorian public service, its incidence is concentrated markedly at the younger ages.
The capital cost to the taxpayer of supporting a 35 year old for the rest of his working life can be around one quarter of a million dollars.

The Commonwealth Superannuation Scheme, in common with public sector schemes in many parts of the world, has a reputation for high rates of mental disorder as the primary cause of invalidity. Interestingly, the incidence of such disorders by age is very different, as the next table shows. This relates only to 'mental' invalidity pensioners and analyses them by age.

<table>
<thead>
<tr>
<th>Age at retirement</th>
<th>Percentage of new mental ill-health pensioners in each age-band</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 49</td>
<td>26.1</td>
</tr>
<tr>
<td>50-54</td>
<td>18.1</td>
</tr>
<tr>
<td>55-59</td>
<td>34.7</td>
</tr>
<tr>
<td>60-64</td>
<td>21.1</td>
</tr>
<tr>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

It is difficult to escape the conclusion that some mentally-disabling factor is rampant in Victoria, striking down its public servants in their prime, whilst leaving their Commonwealth counterparts relatively unscathed. More than one in three of the Victorian cases related to a person under age 40.

The capital cost to the taxpayer of, say, supporting for the rest of his or her working lifetime a thirty-five year old teacher is around one quarter of a million dollars. Thus, if there is any abuse of the system, the cost to the community rapidly assumes a frightening size.

The table reveals another feature of the Victorian experience. This is the award of invalidity pensions, irrespective of cause, at younger ages than occurs in the Commonwealth Scheme. The analogous table is:

<table>
<thead>
<tr>
<th>Age at retirement</th>
<th>Percentage of all new invalidity pensioners in each age-band</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 49</td>
<td>21.7</td>
</tr>
<tr>
<td>50-54</td>
<td>16.8</td>
</tr>
<tr>
<td>55-59</td>
<td>36.3</td>
</tr>
<tr>
<td>60-64</td>
<td>25.2</td>
</tr>
<tr>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

So what is going on in the Victorian public service? Left to its own devices, is the State Superannuation Board likely to get its house in order? Its track-record is not encouraging. In their most recent report the joint actuaries to the Board refer to the progression of ill-health retirement rates during the twenty years to 1980. Measured against the experience in the early 1960s as a base (of 100%), this shows a rate, for the bulk of the membership, of 154% by 1974, 199% by 1977 and 230% by 1980. The pattern has attracted regular comment but precious little success in reversing the trend. For example, quoting from the actuarial report of the position as at 30th June, 1977, "there would seem to be a 'prima facie' case for an amendment to the State Superannuation Act which would restore earlier patterns of ill-health retirement ... the scheme, as it is presently designed, appears to encourage people to retire on the grounds of ill-health ... the pension on ill-health retirement ... is 70% of salary, inflation-proofed."

Tighter medical procedures on entry to the Scheme have been introduced to weed out new members with impairments at the outset and hence disqualify them from
some of the range of pension benefits. In due course this may work its way through into fewer qualifiers for ill-health pensions.

**Too much leniency**

The more urgent problem, however, would seem to be to address the apparent leniency with which claims from prospective pensioners are treated. The State Superannuation Board used to complain that, having once granted a pension, it had very little flexibility under the existing Acts to modify the terms or level of the pension. For example, an ill-health pension, once awarded, could be reduced or cancelled only if the pensioner (having been assessed as fit for duty) again took up employment within the ambit of the State Superannuation Scheme, refused an offer of such employment, or continually refused to present himself for medical examination. Any job outside this range, no matter how demanding or well-paid, had no effect on the pension.

---

**Some fifty percent of Commonwealth public service retirements are on grounds of invalidity.**

Some action was eventually taken on this issue in a 1981 Act, extending the assessment to a capacity for any gainful employment.

At the time of writing there is little evidence available as to the success of these measures. They do not themselves guarantee success: success will come only if they are enforced vigorously. For example, the Commonwealth Scheme has wide powers to review invalidity pensions but, quoting from a recent report by the Commissioner: ‘(pressures of other work made it) necessary ... to suspend the review of invalidity pensioners for six months ... reviews were then recommenced on a limited basis.’

In May 1982 the Victorian State Superannuation Board ‘adopted the policy that where it was considered that a pension should be reduced (under this provision), the salary from other employment together with the reduced pension would equate to five-sixths of the current equivalent salary of the position from which the pensioner retired.’ Such a policy, if accurately summarised in the Annual Report, seems to pose as many questions as it answers.

Suppose a pensioner accepts a job and has his pension reduced as above. If he were subsequently retrenched, by now in good health, would his pension revert to its former level? The policy above suggest that it would, in which case the original invalidity pension has effectively been transformed into an unemployment benefit.

To get the Victorian performance into perspective it is useful to look further at the Commonwealth Scheme and to look also at the corresponding scheme in South Australia. The comparisons are both revealing and disturbing.

**Private fund experience**

The overall rates of ill-health retirement used in valuations of the Commonwealth Scheme nearly doubled between 1972 and 1980. The actual rates experienced since the Commonwealth Scheme was modified in 1976 have been higher for the most part than in the Victorian State Scheme. In 1980-81, however, the rates fell back sharply, prompting a comment by the Australian Government Actuary that the ‘reduction was due at least partly to
changed procedures by some employers.'

In a private sector fund exits on health grounds are outnumbered by those on age grounds by six to one!.

Nonetheless, even in that year 50% of all new retirement pensions were on grounds of invalidity. Two years earlier the figure had been nearly 75%. At 30th June, 1981 the Commonwealth Scheme had over 22,500 pensioners classified as invalidity retirements, compared with only 18,000 'age' pensioners.

The consistent experience of a major private sector fund in recent years has been that exits on health grounds are outnumbered by those on age grounds by at least six to one. The contrast with Commonwealth Scheme experience, mentioned above, is obvious.

At 30th June 1982 the Victorian State Scheme had some 13,100 'age' pensioners and some 5,700 'ill-health' pensioners, which at first sight is a surprising distribution relative to the corresponding figures for the Commonwealth Scheme. This ratio is, however, very sensitive to the treatment of pensioners in the age-band from 60 to 64 years. The tables above show that 'ill-health' classification of pensioners in Victoria virtually ceases at age 60, in contrast to Commonwealth (and private sector) practice. Clearly this leads to a relative understatement of 'ill-health' pensioners in Victoria, boosting instead the numbers of 'age' pensioners.

In South Australia the picture is different. The incidence of mental disorders is not apparent from the data available. The overall ill-health retirement rates from 1976-80 were some 20% up from their levels in 1974-77, but even so were scarcely more than half of the Victorian rates of the corresponding period. Unlike the Commonwealth and Victorian schemes, there is little financial advantage to the member to have retirement classified as ‘ill-health.’ South Australia has (June 1980) six times more ‘age’ than ‘invalidity’ pensioners. The South Australian actuary also urges on his public service colleagues ‘mechanisms for controlling Government superannuation costs’, whereby the true cost of superannuation has a direct impact on departmental budgets.

Thus, some strong evidence emerges that high rates of ill-health retirement in Victoria are linked to members’ attitudes, unrealistic medical assessment, poor benefit design and poor budgetary control. Indeed, the Victorian Government Actuary is on record as echoing these sentiments.

What of the position in the private sector, where there is no taxpayer waiting to pick up the ultimate bill for disablement benefits? Not surprisingly there is evidence of tighter financial control and hence ill-health retirement rates which are substantially lower than in the public sector. They do show, however, a similar marked upward trend during the last twenty years. This — in the public sector as well as in the private — presumably reflects gradual changes in community attitudes, especially to psychiatric illnesses.

As a general rule, in the private sector, the insurance market’s concept of disablement governs the outcome of any individual’s claim for ill-health retirement. Obviously each insurer in a competitive market has a keen interest in making his premium rates as attractive as possible. This in turn implies close
scrutiny of claims and trends.

Similar scrutiny applies to matters of benefit design (for the same underlying financial reasons) to remove any incentive to ‘milk the system.’ A striking example of the need for such an approach occurred some years ago with the fund of a major Australian manufacturing company. A spate of early retirements in ill-health was traced to an anomaly in benefit design whereby a much larger benefit resulted from ill-health retirement. The benefit structure was changed and ill-health retirements reverted to ‘normal.’

What constitutes normal?

Any comparison of private and public sector experience must address the question of what constitutes ‘normal.’ For example, a neurotic teacher or policeman in the Victorian public service will likely qualify for an invalidity pension on the grounds of inability to do that job effectively. By contrast, a similar person having similar problems in the private sector is far more likely to be encouraged to resign or to move to a less stressful job. The question of an invalidity benefit would rarely arise, except perhaps where early retirement on age grounds was already a possibility.

There must be an incentive to work, not to seek invalidity pensions.

In the first case, the erstwhile public servant is added to the ‘ill-health’ statistics; in the latter, the addition, if any, is probably to the ‘resignation’ statistics. The large range of jobs available in the public service at State or Commonwealth level suggests that it should be comparatively easy (relative to what most private employers could offer) to place the public servant suffering stress in a less-demanding job. The individual can then continue to use his talents productively and the taxpayer is saved many thousands of dollars in unnecessary benefit payments.

What is surely undeniable is that the taxpayer should not have to support, by means of a generous, indexed, life-time pension, a young or middle-aged person whose only ‘disability’ is to have made a poor choice of career. The argument is reinforced many times over if that person gains substantial employment elsewhere yet continues to accept the pension. The issue then is almost one of fraudulent misappropriation of taxpayers’ funds.

The solution

What is the solution? In a moral climate where enormous resources are being devoted to ‘tax avoidance’ and ‘medifraud,’ an appeal to the better nature of public servants to cease abuse of the system may fall on deaf ears. The realistic solution, widely-recognised but insufficiently acted upon, is to remove the incentive for abuse.

This needs co-ordinated action on several fronts. First, the design of benefits within the scheme must be sound. There must be an incentive to work, not an incentive to seek invalidity benefits. For example, a ‘stress’ pension (payable only if no other work were available) might be based on service completed and exclude potential, future service.

Next, there must be a consistent approach to the medical assessment of cases, pitched at a level which recognises attitudes in the community as a whole. Some onus might usefully be placed on invalid pensioners by making it obligatory for them to advise the scheme’s administrators on taking up any
substantial level of employment, with heavy sanctions for non-compliance.

**The only real problem in reducing the appalling invalidity rates is one of political will.**

Thirdly, there must be budgetary control such that it is in the self-interest of the employer to ensure that unjustified claims for benefit are rejected. Ultimately, perhaps, this is the most powerful sanction. It is, of course, exactly the constraint under which any private sector concern must operate. Too often in the public service the financial buck can be passed on. If a departmental official had to deal with an invalidity pensioner as capital outlay of, say, $250,000 within his total budget allowance, some new attitudes might emerge, as to both treatment of claims and redeployment of staff.

A Victorian Parliamentary Committee is conducting a wide-ranging enquiry into public sector superannuation schemes. But an enquiry is not needed to deal with the high invalidity retirement rates.

The real problem has been the lack of political will. How long will politicians allow the current insupportable rates to continue? How long will it take for the responsible public service authorities to ensure the scheme operates more in line with community norms?
Malcolm Fraser and the Size of Government

A number of political theorists have argued that the powers of special interests mean that Government will continue to increase its share of the community's resources. The record of the Fraser Government suggests that the theorists may have been too pessimistic; government spending can be held in check, although substantial and sustained reductions will need a more thorough-going programme than was put before the people in 1975.

The problems that President Reagan and Prime Minister Thatcher are having in holding down public sector spending have lent some support to those 'public choice' scholars who argue that democracy is biased towards the inexorable growth of government.

The bias arises from the fact that benefits of government action for those who receive subsidies and privileges are concentrated while the costs are diffused among the great body of taxpayers. Therefore special interests have a stronger motivation to urge governments to spend than taxpayers have to defend their disposable incomes from each additional increment of taxation.

While those interests which have the greatest opportunities to advance themselves in this way are public sector institutions, the theory also applies to private sector interests who seek special benefits from government.

Like the Thatcher and Reagan Administrations the Fraser Government came into office with a general mandate to stop and ultimately reverse the growth of government.

The seven years of the Fraser Government present a useful case study to assess in general terms, the predictions of the 'public choice' scholars.

There is no definitive measure of the size of government. Certainly the Fraser Government did not specify, apart from a commitment to reduce the deficit, which measure, or set of measures, was most appropriate.

This is in contrast to the U.S., for example, where President Reagan in his election campaign argued that a key measure of his policies to cut government would be the share of the Federal Budget in the GDP.

In table 1, eleven measures relevant to the size of government have been listed.

* * *

If the Reagan view is accepted that the essential measure is budget outlays as a share of GDP, the Fraser Government demonstrated moderate success.

If the Reagan view is accepted that the essential measure is budget outlays as a share of GDP, the Fraser Government demonstrated moderate success. While fluctuating between years, the share of budget outlays in GDP at the end of the Fraser period was almost the same as when Fraser first came to power.

It follows, however, that as there was no sustained reduction in the Budget share of the community's resources there was clearly no reduction in the absolute size of government; indeed it grew along with the economy.

While international comparisons are...
difficult — not the least because of differing economic conditions and political responsibilities — it appears that the Fraser Government was more successful then either the Reagan or Thatcher Governments (to date) in expenditure control.

In the U.S., central government budget outlays increased from 22.4 percent to 25.2 percent of GNP (3 budgets) under the Reagan administration, while under the Thatcher Government the comparative figures show a rise from 36.7 percent to 40.7 percent (4 budgets).

Outlays
(Table 1, columns 1 to 3).

Overall, the growth in budget outlays during the Fraser years was held to an average annual rate of 2.1 percent (real); this compares with an average annual real rate of 5 percent in the 'sixties and 10 percent in the Whitlam years.

In Mr. Hawke's first budget the forecast is for a 7.2 percent real increase in outlays.

Overall, the share of the Commonwealth outlays in GDP in 1982/83 totalled just over 30 percent — about the same level as at the end of the Whitlam years.

The comparatively low growth in outlays in the Fraser budgets, combined with the improving economic performance up to 1980, meant that the objective of reducing the Commonwealth Government share of community resources was achieved (columns 2 and 3). But these reductions could not be sustained with the sharp increase in social welfare outlays occasioned by the recession.

The increase in outlays in the first Hawke budget pushed the Commonwealth share of GDP to an estimated 31.6 percent.

Budget Receipts
(Table 1, column 4).

A less favourable measure of the Fraser years was the growth in budget receipts (mainly taxation) as measured by their share in GDP, rising from 25.1 percent in 1975/76 to 27.2 percent in 1982/83. This growth reflects the priority given to reducing the deficit and inability to further reduce the level of government spending.

The Hawke Government's acceptance of deficit financing, together with the forecast upsurge in GDP growth, are the main reasons why the share of receipts in relation to GDP is expected to fall slightly in the first Labor budget.

Deficits
(Table 1, columns 5 to 9)

One of the main objectives the Fraser Government established for itself was the elimination of the Commonwealth deficit. By this criterion, up to 1981, it achieved substantial success.

The deficit fell substantially during most of the Fraser years. The low growth in expenditure, combined with some tax increases, enabled the budget to be brought into virtual balance by 1981/82.

The blowout in the final budget represented 2.8 percent of GDP which, according to figures published in the July edition of The Journal of Economic Affairs, would still leave Australia with one of the smallest deficits (relatively) among major industrial countries.

The Hawke budget deficit of $8.4 billion represents some 4.7 percent of GDP.

An important achievement of the Fraser Government was to reduce the 'structural imbalance' in the budget. The structural deficit is defined as the deficit net of the recession-induced effects, such as the increase in unemployment benefits.
<table>
<thead>
<tr>
<th>YEAR</th>
<th>REAL INCREASE IN BUDGET OUTLAYS (%)</th>
<th>BUDGET SHARE OF GDP (%)</th>
<th>BUDGET AND NON-BUDGET SHARE OF GDP (%)</th>
<th>BUDGET RECEIPTS SHARE OF GDP (%)</th>
<th>BUDGET DEPOSIT (M$)</th>
<th>DEBIT SHARE OF GDP (%)</th>
<th>STRUCTURAL DEFICIT SHARE (%)</th>
<th>TOTAL BUDGET AND NON-BUDGET DEFICIT SHARE (%)</th>
<th>COMMONWEALTH GOVERNMENT SHARE OF THE WORKFORCE (%)</th>
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<td>2</td>
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<td>1973/74</td>
<td>5.6</td>
<td>23.8</td>
<td>24.6</td>
<td>23.3</td>
<td>279</td>
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<td>716</td>
<td>1.4</td>
<td>0.7</td>
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<td>28.9</td>
<td>29.4</td>
<td>24.8</td>
<td>2545</td>
<td>4.1</td>
<td>2781</td>
<td>4.5</td>
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<td></td>
<td>1975/76</td>
<td>5.1</td>
<td>30.0</td>
<td>30.6</td>
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<td>3567</td>
<td>4.9</td>
<td>3659</td>
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<td>-</td>
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<td>29.0</td>
<td>30.3</td>
<td>25.7</td>
<td>2719</td>
<td>3.3</td>
<td>2048</td>
<td>2.5</td>
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<tr>
<td>1977/78</td>
<td>2.4</td>
<td>29.6</td>
<td>31.1</td>
<td>25.9</td>
<td>3211</td>
<td>3.7</td>
<td>2481</td>
<td>2.7</td>
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<td>29.5</td>
<td>25.0</td>
<td>3457</td>
<td>3.4</td>
<td>3036</td>
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<td></td>
<td>1979/80</td>
<td>-</td>
<td>0.5</td>
<td>27.6</td>
<td>28.9</td>
<td>25.8</td>
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<td>1980/81</td>
<td>4.0</td>
<td>27.7</td>
<td>28.9</td>
<td>26.9</td>
<td>1109</td>
<td>0.8</td>
<td>(456)</td>
<td>(0.3)</td>
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<td>1981/82</td>
<td>1.9</td>
<td>27.9</td>
<td>29.3</td>
<td>27.6</td>
<td>548</td>
<td>0.4</td>
<td>(1766)</td>
<td>(1.2)</td>
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<td></td>
<td>1982/83</td>
<td>6.3</td>
<td>30.4</td>
<td>31.8</td>
<td>27.7</td>
<td>4473</td>
<td>2.8</td>
<td>(807)</td>
<td>(0.5)</td>
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<td>HAWKE</td>
<td>1983/84 (est.)</td>
<td>7.2</td>
<td>31.6</td>
<td>33.2</td>
<td>27.0</td>
<td>8361</td>
<td>4.7</td>
<td>2616</td>
<td>1.5</td>
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* figures in brackets denote surplus
and reductions in tax revenue as a result of the recession. In other words, the structural deficit represents the size of the deficit if full employment were achieved.

A less favourable measure of the Fraser years was the growth in tax and other budget receipts.

Richard Blandy and Stephen Creigh in the June, 1983, edition of "The Australian Bulletin of Labour" argue, "The (structural) component of the budget deficit as a percentage of GDP has not been large in recent years compared with the Whitlam Budgets of the middle 1970s when the structural deficit reached 5 percent of GDP. The projected structural deficit for 1983/84 is not large by comparison with these years — although it is large by comparison with the last four Fraser Budgets.

The Budget Papers indicated that the structural component of the deficit will increase substantially, both relative to the overall deficit and to GDP, in the first Hawke Budget.

Size of the Public Service
(Table 1, columns 10 and 11).

In contrast to the current policies of the Commonwealth and a number of State Governments, the Fraser Government maintained tight controls on public sector employment.

Commonwealth Government employment grew by only 1 percent during the whole period of the Fraser Government — a rise of some 3,300 employees (after adjusting for transfer of employees between State and Commonwealth Governments — see note, Table 2). As a share of the workforce, Commonwealth Government employment fell from 6.6 percent to 5.9 percent.

By contrast, the State Governments during this period significantly increased public sector numbers; between 1975 and 1983, the total number employed in the States' public sector rose from 885,000 to 1,013,500 — a rise of 14.5 percent.

This year Commonwealth Government employment is forecast to grow by 4 percent — far more than the total growth of the Fraser years.

In the current financial year Commonwealth Government employment is forecast to rise by about 4 percent — far more than the total growth during the whole of the Fraser period.

Table 2

<table>
<thead>
<tr>
<th>State Government Employees</th>
<th>1975*</th>
<th>1983</th>
<th>% growth</th>
</tr>
</thead>
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<tr>
<td>(Nov.) (100's)</td>
<td>(March)</td>
<td></td>
<td></td>
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<tr>
<td>N.S.W.</td>
<td>300.8</td>
<td>336.7</td>
<td>11.9</td>
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<tr>
<td>Vic.</td>
<td>230.9</td>
<td>275.0</td>
<td>19.1</td>
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<tr>
<td>Qld.</td>
<td>133.5</td>
<td>157.1</td>
<td>17.7</td>
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<tr>
<td>S.A.</td>
<td>93.7</td>
<td>99.5</td>
<td>6.2</td>
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<tr>
<td>W.A.</td>
<td>93.3</td>
<td>109.3</td>
<td>17.1</td>
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<tr>
<td>Tas.</td>
<td>32.9</td>
<td>35.9</td>
<td>9.1</td>
</tr>
<tr>
<td>Total</td>
<td>885.1</td>
<td>1013.5</td>
<td>14.5</td>
</tr>
</tbody>
</table>

*Note: In order to ensure comparability these figures have been adjusted for the Commonwealth take over in 1978 of the railway operations of the Tasmanian and South Australian Governments, and for the transfer of Commonwealth Government employees to the Northern Territory Government in 1978.

The Last Fraser Budget

The 1982/83 budget is frequently seen as a break from the tough fiscal stance of the previous years of the Fraser Administration.

When presented to Parliament the 1982/83 budget showed a real increase in outlays of some 2.6 percent, an overall
deficit of $1,674 million and a domestic surplus of $230 million.

The comparative 'outturn' figures are: outlays growth 6.3 percent, overall deficit $4,473 million and domestic deficit $2,482 million. About half of the increase in outlays over the original budget estimates can be attributed to the lower economic activity which caused the upsurge in social welfare payments, and the additional need for drought and bushfire relief. In addition, the outlays were increased by a number of discretionary decisions.

Revenue collections for 1982/83 were almost $900 million below the budget estimate largely as a result of lower economic activity. The explosion in the deficit therefore was in large part due to recession-induced effects rather than a dramatic loosening of fiscal discipline.

The First Hawke Budget

In contrast to 1982/83 when GDP acutally fell, the current budget has been predicated on a significant recovery in economic activity. Despite this more favourable economic climate the share of the Commonwealth budget in the economy has gone on to a much higher plateau. The 7.2 percent real growth in outlays is the largest expansion since 1974/75. In contrast to the previous year, a significant part of this expansion seems to be due to Governmental decisions rather than as a consequence of the recession.

Conclusion

There is no doubt that the move towards smaller government must be based on a more detailed political programme than the Fraser Government possessed when it came to office. In retrospect, it is clear that two important elements in any programme to reduce government and improve the competitiveness of the private sector — 'privatisation' and deregulation — hardly formed any part of the initial programme of the Fraser Government in 1975.

If the public sector's share of resources is going to be reduced, future governments will have to broaden their base of advice instead of total reliance on the public service.

If the public sector's share of resources is going to be reduced, future governments will probably have to broaden their base of advice away from, instead of near total reliance on, the public service. It is hardly likely that the public sector will produce the options necessary to permit the move towards small government. A wider base of advice would also help Ministers avoid the trap of becoming spokesmen for the interests of the public service.

The experience of the Fraser years indicates that, where there is political will, it is possible for government to withstand the immense pressure from the public service and lobby groups to increase their share of community resources. The fact that the share of government was held during a period of poor (world-wide) economic performance underscores this particular achievement.
Public Sector Inflation
by Jacob Abrahami

The price increases imposed by Federal and State Governments in their recent Budgets on a range of goods are yet to be reflected in published consumer price indexes. Yet even before the latest range of imposts were announced, it was clear that Governments and their authorities have been far less disciplined in restraining prices than the private sector.

There is one area of pricing where Governments generally have clear authority to act — public sector prices and charges.

In addition, Government policies can have a significant effect — often the major effect — on prices of some goods produced in the private sector. For example, Government taxes and excises make up over 50 percent of the price of cigarettes, beer, spirits and motor fuel.

As the chart below shows, in the past three years the private sector has managed to contain prices more successfully than the public sector. In the period September 1980 to June 1983, public sector prices rose on average by 42 percent, private sector prices rose by only 28 percent.

In order to measure this relative impact of Government policies on consumer prices, two indexes have been calculated, based on Australian Bureau of Statistics data. One is for goods and services where prices are determined mainly by the public sector and the other for goods and services where prices are determined mainly in the market place.

Privately supplied items covered by the index are food, clothing, private housing, household equipment, private motoring, personal care products and services, recreation and education.

Public sector items include local government rates and charges, fuel and light, postal and telephone services, public housing, motoring charges and health services.

Automotive fuels, tobacco and alcohol have been included as public sector goods. While these goods are privately produced and distributed, as mentioned above at least 50 percent of their price to the consumer is made up of various taxes and charges (with spirits it is as high as 70 percent); for some of these items government actually determines the minimum or maximum price. In addition, governments have served notice that they intend to raise additional revenues by increasing taxes on these items.

Private Sector Price Trends
Why have the private sector price rises been more restrained than the public sector?

1980 to 1983 has been a period of the most severe recession in the post-war era. Despite the low level of economic activity there has been considerable pressure for higher wages. Private sector suppliers who operate in a competitive environment have had to absorb much of the cost increases. This is reflected in the profit share of GDP during the period; in 1980/81 the profits of trading enterprises accounted for an historically low 14.8 percent of GDP. By 1982/83 the profit share had fallen further to 12.4% — the lowest in at least 25 years.
Public sector suppliers are generally monopolists in their fields, and as such are not subject to the disciplines of the market place. In the absence of competitive pressures, public authorities have little incentive to resist wage pressures, with the inevitable consequence of higher costs which are passed on to consumers.

Thus, in recent years, the public monopolies which supply consumers with their energy needs have been granting significant wage increases without corresponding productivity increases. The result has been an increase of 51 percent in the price of energy in the past 33 months. In contrast, clothing manufacturers, who have to compete against imports, have recorded only a 20 percent increase during the same period.

A growing source of pressure on the prices of publicly provided goods is the
increasing use of government pricing policies as a means of general revenue raising. In Victoria, for example, the Gas and Fuel Corporation and the State Electricity Commission must pay a percentage of gross revenue to the State Government irrespective of the profitability of the enterprise. To raise the necessary tax revenue, public authorities seem to find it easier to raise their prices rather than improve their productivity.

Public authority pricing policies should reflect efficient costs of production. The problem at present is that there are no effective market controls to encourage efficiency. As a result, the price increases which are occurring reflect the ability of unions and governments to exploit the monopoly position of these enterprises.

The need to raise revenue also helps explain the large increases in Commonwealth and State budgets in taxes, excise and charges on consumer goods such as cigarettes, wine, beer and motor fuel.

There is no doubt that public sector spending has “taken off” with the Federal and most State Governments pursuing big spending policies. This will lead to further pressure on public sector prices, as governments seek additional revenue sources.

The contribution of the public sector to overall inflation is, in fact, greater than the graph suggests. Many of the price increases in the private sector result from Government policies on such matters as payroll taxes, energy pricing, land taxes and company tax.

Finally, the Government support for indexing wages and salaries will clearly add pressure on the price levels of all goods and services.

The combined effect of automatic indexation and rising prices may put Australia, once again, on a costly wage-price inflation spiral, with the public sector leading the way.

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122 IPA Review - Spring 1983
Anyone for Rent Control?
by Dr. Robert Albon

The Victorian Government has recently employed consultants to assess the likely impact of changes it proposes to make to its landlord and tenant legislation, the Residential Tenancies Act of 1980. There is reason to believe the existing legislation is already causing damage in the rental housing market and that the direction of the proposed change is the wrong one.

Rental market regulation — as opposed to old-fashioned “rent control” — is a phenomenon of the 1970s and 1980s. Its Australian origins lie with the Commission of Inquiry into Poverty (the Henderson Report) and the growth of the consumer protectionist movement. Quite clearly, advocates of this kind of interference in the private rental market see it simply as another branch of consumer protectionism. Rental housing is one of many products where consumers are susceptible to falling prey to avaricious traders.

The Henderson Commission was clearly not in favour of “rent control” which it rejected for three reasons:
• landlords will ‘have a clear incentive to get rid of their tenants’;
• rent control ‘can lead to landlords attempting to cut costs by not spending money on maintenance’; and
• 'even more serious is the overall effect of a sharp reduction in the supply of rental accommodation'.

The Commission concluded that ‘we do not agree that rent control is in the long-term interest of tenants.

The Commission also noted that:

The cheap private rental market has many other unsatisfactory aspects such as insecurity of tenure, illegal retention of bond money, biased leases, and legislation which gives tenants few legal rights.

Here lies the germ of ‘rental market regulation in Australia.’ The legal reforms suggested in the report of the Henderson Commission involve setting up in each State a Residential Tenancies Board and a Tenancy Investigation Bureau. These bodies would be vested with the full complement of regulatory powers.

The Commission’s proposals attracted considerable support from several quarters.

New South Wales was the first State to act. Eviction provisions were tightened up considerably in 1977 such that a court order was necessary to effect an eviction whether a lease was current or not. Heavy penalties for illegal evictions were included. The New South Wales Landlord and Tenant (Rental Bonds) Act, 1977, set up a Rental Bonds Board to administer the security bond system.

South Australia also acted early and its legislation, the Residential Tenancies Act, 1978, conforms quite closely to the Henderson model and carries over rent-setting powers from the former Excessive
Rents Act. A Residential Tenancies Tribunal was established to adjudicate on disputes between landlord and tenants and to set rents — if desired by the tenant. The size of bonds was limited to a maximum of three weeks rent, bond money had to be deposited with the Tribunal, and eviction controls were tightened up.

This type of interference in the rental housing market can be attacked as a clear violation of private property rights.

In Victoria a Community Committee on Tenancy Reform reported in 1978, but it was not until 1980 that the Bill was finally enacted as the Residential Tenancies Act. In this form the Act was considerably different to that envisaged by the Community Committee and encapsulated in the 1978 version of the bill. Tenant interests seemed to feel that they had been betrayed and there were murmurings of discontent about the outcome. Prior to the 1982 Victorian Election, the Labor Party released its policy on the matter of landlord and tenant law. The policy envisaged major changes, especially in regard to eviction provisions, fair rents and the security bond system.

The election victory of the Labor Party in 1982 paved the way for enactment of the Labor policy. However, the Government has not moved hastily and has only recently arranged for an evaluation of the likely effects of the proposed changes. According to the Government’s study brief, areas which are likely to be relevant for this study include:

- Payment of rents in advance.
- The frequency and notice required for rent increases.
- The reasons and time period required for notices to vacate premises.
- The possibility of abolishing bonds and instituting an insurance scheme (the subject of a separate feasibility study).
- Regulation of rents found to be in excess of market levels for comparable properties.
- The establishment of a rental housing code.
- Standard form leases.”

The intention seems to be to amend the 1980 Act in such a way as to increase the severity of the controls in all directions.

The Cost of Interference

This type of interference in the rental housing market can be attacked as a clear violation of private property rights. However, it is worth pointing out that while being pro-tenant in intent it may well be anti-tenant in effect. This was the basic message of an analysis of rental market regulation by Professor Ross Parish of Monash University.* Professor Parish pointed out that the benefits to tenants are not a free good, as they involve costs to landlords. These additional costs will tend to drive up rents and cause some landlords to wish to exit the market. Parish argues that the costs to landlords will exceed the tenant benefits — if not, the legislative provisions would have automatically found their way into private contracts.

While being pro-tenant in intent it may well be anti-tenant in effect.

If the upwards pressure on rents is

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suppressed by application of the rent controls proposed the situation will become even more difficult for many tenants as more and more landlords will attempt to exit the market. Many of those wishing to withdraw their properties will be frustrated by the severe eviction controls contemplated. Some of these captured by the legislation may attempt to reduce costs by cutting maintenance, although this could be thwarted by the compulsory repair requirements.

Old-fashioned "rent control" is almost an inevitable outcome of the controls being proposed.

These natural reactions of property owners will give rise to demands for tougher regulations on evictions, rents and repair requirements, setting off a vicious circle of increasingly more severe controls. Old-fashioned "rent control" is an almost inevitable outcome of this process. However, there are few commentators who would view this prospect as desirable for either landlords or tenants.

If "reformers" really wish to help tenants there are effective ways of doing this. One obvious way which arises out of the previous discussion is to free up the regulation of the rental housing market so as to encourage landlords to supply and maintain accommodation. Lower costs would also be attainable by relaxation of strict zoning and building regulations which burden the building industry for little offsetting benefit. Indeed, tenants can only lose from such controls which ultimately raise rents and restrict choice.

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Social Security and Work Incentives

The effect of social security payments on individual behaviour, work incentives, and ultimately the potential output of the economy, has so far not been a significant part of the welfare debate in Australia. This article looks at some of the questions involved.

Welfare lobbies, which have been fairly successful in setting the agenda for public debate in Australia on social security matters, tend to argue that the work disincentive effects of social security payments are marginal. Furthermore, given the severe recession, it is suggested that any incentive for some people to withdraw from the workforce has the beneficial effect of making way for those who wish to work. The real issue, they say, is that pension and benefit levels are too low.

However, it cannot be taken for granted that the monetary incentives inherent in a welfare system do not have a significant effect on an individual's behaviour. If social security payments (together with associated fringe benefits) are sufficiently attractive, individuals may well consider a welfare rather than a work option. This can lead to increasing numbers of people choosing the welfare option, particularly if eligibility criteria are not sufficiently tight.

Should this occur, the potential output of the economy can be reduced, which in turn, would limit the community's capacity to provide adequately for the really needy.

Exodus of older males

A dramatic indication of how social security provisions can affect a choice between welfare and work is given in an article published last year by Dr. William Merrilees of the University of Sydney*.

He attributes the "mass exodus" of older males from the workforce largely to changes in the social security system.

In the 55-59 age group some 90 percent of all males were in the workforce in 1970. By 1980 the participation rate had failed to 80 percent. Among the 60-64 age groups the drop was even more striking — from 77 percent to 50 percent.

If social security payments are sufficiently attractive, individuals may well consider a welfare rather than a work option.

He argues that these changes were caused by improvements in the real level of pensions, easier eligibility for invalid pensions, and, for the older group, greater reliance on the wives' old age pension and increased use of war service pensions.

Professor Gruen and Ms. Gallagher in an article published in the July "Current Affairs Bulletin" also point out that an improvement in social welfare benefits can have a fairly substantial effect on both the number claiming benefits and the economic behaviour of applicants.

An example quoted in their article illustrates the effects the supporting parent benefit could have on work participation.

Supporting parent benefit

The pension paid to a single parent with one child is approximately $5,000 per annum. But, if she chooses to work, the supporting mother in the ACT would need to earn over $12,000 to be as well off as she would on a supporting parent benefit.

The gap between the $5,000 and $12,000 arises from the fringe benefits received, such as rental and other rebates, and the extra costs of being in employment.

The writers state that “if this example is at all typical, roughly one-third of female full-time employees would earn less than the full benefits they would gain as recipients of a single parent benefit.”

It is hardly surprising to read, therefore, in a study issued by the Commonwealth Department of Social Security (Research Paper No. 18) that “experience in other countries shows that higher rates (of workforce participation for sole parents) are possible”.

Unemployment benefit

The potential work disincentive effects do not only apply to the accessibility of invalid pensions and supporting parent benefits. The national secretary of the Administrative and Clerical Officers, Mr. Paul Munro, was recently quoted in the press as stating that about 50,000 employees (as a Class 1 Clerk) would be almost as well off on unemployment benefits.

Public servants at this level have a gross salary of $12,500 a year. A married man with one child may be left with a take-home pay of less than $321 a fortnight (after tax, superannuation, hospital benefits and transport costs).

The same man on unemployment benefits would receive $298 a fortnight

MAKING UP THE $7,000 GAP

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental rebate in A.C.T. government housing</td>
<td>$1,869</td>
</tr>
<tr>
<td>Electricity rebate</td>
<td>40</td>
</tr>
<tr>
<td>Telephone rebate</td>
<td>35</td>
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<tr>
<td>Value of Pensioner Health Benefit Card (i.e. cost of health insurance for approximately the same coverage as the pensioner health benefit cards)</td>
<td>1,000</td>
</tr>
<tr>
<td>Extra full-time child-care costs</td>
<td>2,500</td>
</tr>
<tr>
<td>Extra taxation (after allowing for the 1982/83 sole parent tax rebate of $713)</td>
<td>1,600</td>
</tr>
</tbody>
</table>

$7,044
(after the recent budget increases) as well as free medical costs and other fringe benefits.

Does it matter, in a period of high unemployment, if the social security system tends to discourage work effort?

In reference to the exodus of the older males from the workforce Dr. Merrilees states “the economic problems of a slowly growing workforce supporting a rapidly growing reserve of dependents in the forthcoming decades will be exacerbated by the trend to early retirement.”

On the other hand, he argues that the decline in the participation of older males has made “a tidy contribution” to our unemployment problem.

Professor Gruen, however, argues that higher benefits and reduced work participation rates are not easily or quickly reversible if and when the economy moves closer to its potential output.

Reducing output

Even if the economy remains slack, the withdrawal of older people from the workforce could reduce output. To the extent that these people form part of the growing numbers of self-employed in the workforce, their early retirement would not create a job opportunity for an unemployed person and would reduce output.

This analysis suggests a number of conclusions.

First, in considering the real level of benefits it is necessary to take into account both the basic monetary level of the benefit and the attendant fringe benefits. In the example quoted in this article, the fringe benefits available to the supporting mother (including the rental rebate) would total some $37 per week. This represents an addition of almost 45 percent to the basic pension rate. Much of the poverty analysis in Australia ignores the value of fringe benefits.

The issue of work disincentives deserves far more serious examination than it is getting.

Second, it is clearly essential for governments to consider the work disincentive effects when the levels of social security payments and ‘add on’ fringe benefits are established. Certainly the mass exodus of older males from the workforce was not predicted.

Third, a policy to raise the base level of pension may well require a tightening of eligibility criteria and more careful benefit design. This would ensure that some of the work disincentives are minimized and that the improved benefits are concentrated on those most in need. Income or asset tests are only one aspect of eligibility. The medical criteria on which invalidity and sickness benefits are granted, for example, may also need to be examined.

Finally, if there are substantial work disincentive effects in the welfare system, they can cause inequities between those who work and those who, by choice, decide on the welfare option. As the tax burden increases it must exacerbate divisions in the community.

Of course, even after consideration of these matters, decisions by governments on pension levels may not be altered. But it is hard not to agree with Professor Gruen that the issue of work disincentives deserves far more serious examination and administrative attention than it is getting.
The Seven Deadly Rigidities
by Dr. Ken Minogue

In her battle to restore the British economy, Mrs. Thatcher is facing what Dr. Minogue calls 'the seven deadly rigidities'. The institutional pressures which complicate the task of economic management in the U.K. are in many ways similar to those facing Mr. Hawke and Mr. Keating.

Economic policy necessarily depends upon the nature of the society affected by the policy decisions. The axioms of economics assume a perfect responsiveness in the actions of producers and consumers. In other words, economic variables are assumed to be flexible, but in fact there are, to a greater or lesser degree, rigidities which prevent a cause in economics from having its predicted effects.

We may well stigmatize as bad whatever seems to stand in the way of the energies of 55 million people, who are both energetic and inventive. The British disease is institutional sclerosis. I shall consider seven rigidities which stand between Mrs. Thatcher's policy of monetarism on the one hand, and an expanding economy on the other.

One: union monopolies

The first rigidity is the union monopoly of labour, which affects many industries. In taking on a worker, an employer is no longer entering into a contract whose terms depend upon mutual convenience, but rather creating a status whose terms are often difficult to predict (they are, for example, often changed by governmental legislation) and whose termination may involve the employer in protracted and expensive hearings before industrial tribunals. Such an employer will find it difficult to pay the employee his worth, because he is increasingly constrained by union-negotiated wages, appropriate to varying grades and unaffected by the skill or dedication of the worker.

If in responding to changes in demand or in technology, the employer seeks to get rid of some of his workers, or even to change their duties, he must again negotiate with a union whose entire raison d'etre is to force advantages from him at the point of a strike. In the worst cases, such as printing workers in Fleet Street, there is not merely gross overmanning, but jobs which are entirely a matter of historical fantasy, since advancing technology has rendered them entirely unnecessary.

Those who benefit from "feather-bedding" are highly vocal; those who pay for it are not organized.

It is part of Mrs. Thatcher's policy that labour which is unprofitably immured in these union-created interstices of the British economy should be shaken out onto the unemployment market and thus forced to confront reality. But this is a politically dangerous line of policy, since those who benefit from this kind of feather-bedding (as it is called in the U.S.A.) are highly vocal and specific, while those who suffer from it (the buyers of newspapers, for example) who must pay excessively for what they get, are not organized and, in an economy riddled with such costs, barely notice one rather
than another.

In a situation of this kind, it is hardly surprising that employers should think twice before hiring labour, since each employee brings with him such a lot of tiresome problems even before he has made any contribution to the output of the firm.

**Two: wages cannot be reduced**

The second rigidity consists in the level of wages which are in many areas kept inflated by a mixture of union pressure and government regulation. That there is a trade-off between higher wages and the level of unemployment has recently become much more evident to many workers, but this does not mean that they will automatically choose a lower wage and higher level of employment.

In Britain, wages are mostly standardized in each industry, and each union keeps an eagle eye on comparabilities, so that a rise here inevitably sparks off demands there. For long decades, Britain has been caught in a long-playing drama in which the first move is a campaign to raise the wages of "the lower paid" — sometimes absurdly defined as those on anything less than the average wage — and the second move is a demand by skilled workers to restore the differential between the wages of the skilled and unskilled. The fundamental point is that the wages are standardized, and that they can always go up, but never down. And that point illustrates one of the crucial features of these rigidities. Given that wages are totally inelastic downwards, then excess wages extracted by the threat of strikes or other pressures, ought to be paid for in bankruptcies. But this only happens if all the other features of the economy remain rigid.

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**If wages were lower, unemployment would be lower.**

The commoner solution is that inflation changes the context, or overseas competitors are discouraged from competing, or the exchange rate responds: something other than wages must give, since a decrease in wages is one of the unthinkabilities of British life, as it is, indeed, of life in most industrialized countries. Thus when it becomes clear (as successive governments have proclaimed) that there must be a cut in the standard of living, this never takes the form of a reduction in wages. It most commonly takes the form of wages failing to keep up with inflation.

The case of wages thus allows us to observe one of the interesting unrealities which effects all discussions of the problem. There is much talk of an absolute rigidity called "unemployment" and no concern with the fact that unemployment occurs at a fixed price of labour. If wages were lower, unemployment would also be lower. And also, as we shall see, unemployment depends upon widespread attitudes to the jobs workers are prepared to take.

**Three: expanding bureaucracies**

The third rigidity is the bureaucracy. This is the nasty sociological word for what the British call civil servants. We need not doubt that administrators stand between us and chaos; if they must be seen as producers, then what they produced, in general, is order, and the memory enshrined in records. Actually civil servants do a great deal more, of course: they collect tax, make customs examinations, run computers etc.

The problem is that there is in principle
no limit to the amount of administration we can use. How much information needs to be collected if we are to make a sound decision? How many records need to be kept? How many checks should a procedure incorporate? The late Northcote Parkinson grasped this problem from the other end by formulating his famous law that work expands to fill the time available. He formulated the law on observing that the number of administrators needed by the British Admiralty seem to expand in inverse proportion to the number of ships they had to look after.

Now it happens that the bureaucracy plays an important part in one of the less implausible explanations of the British disease. This particular explanation suggests that every time a recession in trading conditions made some workers unemployed, the government stimulated the economy, with the result that the public sector, and especially the local and central government bureaucracy, took on more workers. The economy breathed out productive workers, as it were, and breathed in bureaucrats.

The administrators needed by the Admiralty seem to expand in inverse proportion to the number of ships.

This process was bound in time to create problems, because once installed in jobs in the public sector, workers became much more difficult to shift. They thus turned into another of those rigidities I am describing. And as the unions steadily turned a job into a status, so it became much more difficult to cut the bureaucracy. The whole experience constitutes an interesting cautionary tale for other countries, because it is clear that there are in-built mechanisms preventing the slimming down of obese bureaucracies. For one thing, the planning required for slimming down a bureaucracy must be done by some part of the bureaucracy itself, so that the institution is required to perform a kind of self-mutilation.

Bureaucrats tend to cut any service except themselves unless they are very closely controlled. And these few 'a priori' observations find support in the fact that inability to make any serious dent in the number of civil servants is one of the more notable failures of the Thatcher government. Other governments ought therefore to be warned that the most dangerous of all growths is that of a bureaucracy based on a tenured career-structure.

Four: weight of regulation

The fourth rigidity lies in the weight of government pressure and regulation of the economy. Many such regulations are well-intentioned, and they may well remind us that a society without any of the "rigidities" I am discussing might have intolerable features. Such regulations include environmental regulations, the outputs of inspectorates, and regulations about sexual and racial equality.

In some cases, such as the requirement that firms of an appropriate size must employ a proportion of handicapped workers, these regulations amount to an off-loading of what are taken to be public responsibilities on to industrial firms. The ends are often desirable, but the ease with which a desirability can be imposed by government upon others who must pay the costs makes it a device conspicuously open to abuse. In all cases, regulation is to production what a handicap is to the rider of a race.
Five: power of the public sector

The fifth rigidity is the public sector as a whole. This particular rigidity introduces us to one of the underlying paradoxes of the contemporary situation: that the more powerful an agency, the weaker it becomes. States are unlikely to go bankrupt: they can usually find the money to pay their employees from somewhere; at worse, they can print some; and recently, that is exactly what they have been doing. This very resourcefulness of powerful governments, their very flexibility, creates the rigidity of employees in industries owned largely or totally by the government.

Bureaucrats tend to cut any services except themselves.

All through this century, the British government has been taking over greater and greater areas of industry, to a point where it now disposes of more than 40 percent of the GNP. What began as a drive to command the heights of the economy has ended knee-deep in a morass, and the unfortunate Thatcher Government finds itself responsible for sustaining the operations of many overmanned and unsuitably located factories the length and breadth of Britain.

Six: social services

The sixth rigidity is the social services; and this reminds us once more that what is rigid from an economic point of view may well be highly desirable from some other points of view. Modern societies treat everyone as in some sense a beneficiary of the national product; and hence the poor, the unemployed, the handicapped and other deserving classes of person are provided with money and services.

Old-age pensions were among the things provided in the 1909 budget, and among the more recent classes of beneficiary has been the one-parent family, which illustrates a new principle of subsidizing people whose needs have arisen directly as a consequence of their own choices. But the general point of the social services is that they are provided according to need, and there is no concern with how people got into need. Further, these services are now understood as rights available to everyone of one class or another, thus deliberately destroying the morality, very strong in the last century, that it was a humiliation and a disgrace to go "on the parish".

The social services constitute a rigidity because they are inordinately expensive, because they require a vast bureaucracy to administer in their present form, and because it is clear that they help to create the very helplessness they try to relieve. Since 1945 when a fully fledged welfare state developed, the hopes then entertained that these services would eventually diminish to the point where they were concerned with the aged and the handicapped have been dashed.

....subsidizing people whose needs have arisen as a direct consequence of their own choice.

Seven: reliance on government

But it is the seventh rigidity which is the most far-reaching of all. It consists in the way the other rigidities we have discussed are reflected in the minds of the British people. Generalization here is perilous, since there are many areas of British life—medical research, many of the universities, the stage, investigative journalism and much else—where the situation is one of vitality and
inventiveness. But none of this is what is meant by the British disease. Our concern, rather, is with the ideas that most British people bring to their everyday lives.

One of those ideas is a profound conviction that whatever happens to them, or doesn’t happen to them, is the fault of government. Government is expected to provide employment, sound money, social services, regular raises and all other good things. It is notable that Mrs. Thatcher, by contrast with recent governments, is trying to get rid of this notion. Similarly, Mrs. Thatcher has observed that workers might well get jobs if they moved to where the jobs are; earlier, by contrast, successive governments bribed and cajoled industrialists to take the jobs to depressed regions.

The workers of Britain are often loathe to move, sometimes because they live in subsidized housing, another of those conspicuous rigidities. Here again we might note that there are other points of view from which this might be thought excellent: it preserves the culture of the regions, and prevents the South East region from being even more unbearably crowded than it is. But it is one further brake upon economic success.

Some of these points may be typified by the mode of public discussion in Britain. Abstraction is no doubt the curse of popular thought, but the way in which the central issue of unemployment has been cut off from its relevant connections to become an isolated idol producing merely indignant responses is something remarkable. It is taken to be something “made” by government, and it is utterly unconnected with costs, wages and prices. Nor is any connection made between unemployment and lack of skill. We have come so far from regarding joblessness as a disgraceful condition reflecting upon the lazy and incompetent character of the worker, that it never enters people’s heads that there are any positive steps the unemployed might take to make themselves more eligible for jobs.

The British disease is a consequence of an attitude of government which is too terrified to say “boo”.

Ultimately the destiny of any society of human beings lies in the thoughts of its members. But on any sound political judgement, these thoughts must be taken as the material on which to work. As Machiavelli remarks: “Those who have been present at any deliberative assemblies of men will have observed how erroneous their opinions often are: and in fact, unless they are directed by superior men, they are apt to be contrary to all reason”. And in general Machiavelli observes that most people are the victims of their recent experience: short-sighted, brute empiricists.

It is certainly true that the British of the present time tend to think on the basis of the delusory successes they have had in recent decades in increasing their security and their standards of living. This is why the seventh rigidity is of such central interest to any treatment of what Mrs. Thatcher is up to.

The more flexible the government, the more rigid the society will become. In other words, the fatal rigidities of British society over the last few decades—the British disease — are unmistakably the consequence of an attitude of government which is too terrified to say “boo” to any
of the unthinkabilities in which the British people have indulged themselves. It follows from this that the way to make British society more flexible is to make British government inflexible, if not to the point of savagery, at least to a point considerably beyond what has happened hitherto. It is the first such groping attempt in recent times at such inflexibility which has distinguished the Thatcher experiment.

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Date
Constitutional Expenditure Limitation

by Professor Aaron Wildavsky

The comparative ease with which the public sector can increase its share of the community's resources has caused major problems in most industrialized countries. Some public finance experts believe the only way to contain the growth public sector is by imposing constitutional restraints. Professor Aaron Wildavsky is a leading exponent in the U.S.A. of a proposal along these lines. He visited Australia recently and has prepared this note on his proposal for "Review."

I advocate a proposed amendment to the Constitution that would limit the increase in Federal expenditure to a proportionate rise in Gross National Product. It is a linked limit; each year's expenditure depends upon last year's plus the percentage by which the output of the nation's goods and services has gone up. Hence, under the amendment, the size of the public sector could not grow faster than the size of the private sector.

Emergencies, declared by a three-fifths vote of the legislature, may raise the limit. The idea is not to limit spending to some absolute amount, regardless of national productivity or new needs that cannot now be foreseen, but to relate public consumption to private production so that one doesn't eat up the other.

Under present arrangements the purveyors of public policy have every incentive to raise their spending income while reducing their internal differences by increasing their total share of national income at the expense of the private sector. Once a limit was enacted, however, there would be increasing cooperation in society and rising conflict in government. Society would be united on increasing productivity and government would be divided over the relative shares of each sector within a fixed limit.

Enhancing productivity

Organizations interested in income redistribution will come to understand the fatal fact: the greater the increase in real national product the more there will be for government to spend. Instead of acting as if it didn't matter where the money came from, they would have to consider how they might contribute to enhanced productivity. Management and labor, majorities and minorities, would be thinking about common objectives, about how to get more out of one another rather than how to take more from the other.

For the first time in modern history government agencies will know that more for one means less for the other.

What will the private economy and its supporters give as well as get? The overriding objection to social welfare programs is not to improving living conditions but the fear that the public sector will grow until it swallows up the private sector, irreversibly altering our way of life. Given a constitutional guarantee that this cannot happen, the private sector will support welfare programs that can grow with the specified size of the public sector.
Public criticism of corporations would not be based on alleged obstruction of public purposes but on failure to further private productivity. Industry would be instructed to perform its task better rather than lectured as lacking in social conscience. Governmental regulations that impose financial burdens would not be viewed as desirable in and of themselves, as if they were free, but would be balanced against the loss to the economy on which the size of social services depend.

Each part of public expenditure is wanted: only the whole is unwanted.

For the first time in modern history government agencies will know that more for one means less for another. For every major addition to federal expenditure there will have to be an equivalent subtraction. Each agency will be figuring out how to defend what it has and how to steal a march on the others in getting new programs approved. Instead of Congress and interested public officials having to ferret out weaknesses in agency programs, they themselves will do that for us. Competition will improve information.

The devil theory of ever-increasing public expenditure is that "they" do it to us; because bureaucrats and politicians win and enjoy office by making government bigger, democracy allegedly has no defense against them. Politicians spend to stay in office and bureaucrats get bigger salaries and status as their agencies expand. "They" are brutal and "we" are boobs.

My theory, by contrast, is that we-the-people (including citizens, politicians, and civil servants) are doing this to ourselves.

Giant government is a co-operative game. We don't like it — who said that people necessarily like what they do to themselves — but we do it.

Grand Constitutional Rule

Citizens like most government programs; unfortunately, the only way to get what you want is to push everything up, because that's the price of support from other citizens (you provide the scratch for my programs and I'll provide the scratch for yours).

Both personal observation and opinion polls show that individual expenditure decisions do not add up to what citizens would choose collectively, were they given the choice. Each part of public expenditure is wanted: only the whole is unwanted. Bringing the two types of decisions together — totals over time and particular parts one at a time — is the essence of expenditure limitation.

Without limits the public will swallow the private sector.

A grand constitutional rule is necessary in order to bring to bear our understanding of how a series of yearly decisions exceeds what we would decide if we faced the consequences over time. To increase spending no co-ordination is required; everyone just does their own thing. To decrease spending, however, all big spenders must agree or those who refuse will reap the benefits. Unless we all slow spending simultaneously, your forebearance will be my reward. No one will play the game of lower spending unless everyone has to abide by the same rules.

Emergency provisions

What about crises? Suppose the national defense needs money or domestic
disaster threatens. There are emergency provisions but excessive use will vitiate the idea of limitation. Far better to say there are numerous pressing needs but that our capacity to sustain them is also important. If liberals want more for welfare and conservatives for defense, both sides can get what they want by increasing the size of the public sector. Our commitment to defense and our passion for social justice would be better served if we cared for them so much we were willing to do without other things to sustain them. Otherwise we will institutionalize a government that can only adapt by growing larger.

Can there be global spending limits without a constitutional amendment? The federal government in Canada has been trying to do exactly this since 1975 by Cabinet decisions holding spending to the trend rate of the percentage increase in GNP. And it has controlled spending better than other Western nations. Formal spending limits do not guarantee control, but without limits the public will swallow the private sector.
What Sort of Bill of Rights?

by Dr. Michael James

The Commonwealth Government has indicated that it will be introducing a Bill of Rights into Parliament. Dr. Michael James of LaTrobe University has set down some of the key issues involved in a Bill of Rights.

It is not immediately obvious that Australia needs a national bill of rights. Supporters of the idea are usually conscious of this, and attempt to demonstrate the inadequacies of the traditional safeguards of our freedoms. Gareth Evans, in an illuminating essay published ten years ago, summed up these safeguards as the ‘tradition of legislative and judicial restraint’; the wide powers available to governments under the Westminster system are held in check by the fear of electoral defeat and by the ‘multiplicity of specific procedures and remedies’ provided by the legal system (Evans 1973: 11).

Justice Gordon Samuels has likewise adverted to the protection of basic rights offered by the common law and by statutes such as the Commonwealth Racial Discrimination Act of 1975 (Samuels 1979: 92). The essential weakness of these safeguards is that they cannot resist the encroachments of parliament, whose will (except in constitutional matters) is supreme; and in an era of big government there are many ways in which hurried, voluminous and frequently delegated legislation can erode our basic rights, however unintentionally. This has led Justice Samuels to make the simplest point that ‘the fundamental purpose of a bill of rights is to protect the citizen against the power of the state’ (Samuels 1979: 94).

Other alternatives

Even if the inadequacy of traditional safeguards is admitted, a bill of rights may not necessarily be the best remedy. A good case could be made for alternatives such as constitutional amendments prescribing balanced budgets or limits on taxation; and certain kinds of informal constitutional evolution, such as the growing independence of the Senate, may tend to diminish the present domination of the legislature by the executive.

The fundamental purpose of a bill of rights is to protect the citizen against the State.

A major drawback of bills of rights is that they can encourage an artificially high level of litigation which is likely to benefit the legal profession more than the general public. But whatever the case, it looks as if we are to have a national bill of rights. On 7 July, 1983 the Attorney-General told the Australian Legal Convention that the appropriate legislation would be introduced into Parliament later in the year; however, it would not be debated until the Autumn Session of 1984, thus allowing time for public comment. The legislation would be designed to implement Australia’s obligations under the International Covenant on Civil and Political Rights, and its constitutional basis would be the external affairs power; the validity of this basis had been upheld by the Koowarta case of 1982 and the more recent Tasmanian Dam case.

Bills of rights raise a very great number of legal, moral and technical issues. In
this essay I touch on only two: (i) the content and (ii) the legal status of a bill of rights. I take it for granted throughout that the purpose of a bill of rights is, in Justice Samuel’s words, ‘to protect the citizen from the power of the state’.

Which rights?

Advocates of a bill of rights would generally agree that the rights specified therein for protection should be of a truly fundamental kind. The term human rights connotes certain claims which no individual can be said ever to renounce, i.e., which are inalienable, such as the right to life. The problem is that, over time, such basic rights have come to be thought of as including an ever widening circle of claims. Originally, the term referred to two main kinds of claim. First, a right could be an important area of individual liberty with which other individuals should not interfere and which the state should protect by prohibiting such interference. Freedom of speech is an obvious example of this kind of right.

A major drawback is that it can encourage an artificially high level of litigation .... to the benefit of the legal profession..

Secondly, the term right covered certain procedural claims in law, such as the right to a fair trial. Over time, other kinds of right have come to be thought of as equally fundamental, such as the right to vote and the right to non-discrimination on grounds of race, creed or sex. All of these kinds of right might find their place in a bill of rights and help protect the individual from coercion, whether from other individuals or from the state. The problem arises with the so-called welfare rights which the modern state is supposed to acknowledge. For example, Article 24 of the Universal Declaration of Human Rights asserts: ‘Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay’; Article 25 begins: ‘Everyone has the right to a standard of living adequate for the health and well-being of himself and his family’. Claims of this kind clearly imply large-scale intervention by the state in the private choices of individuals and thus seem not to protect individuals from the power of the state.

Evans has rightly stressed that welfare rights may be physically beyond the capacity of certain governments to enforce, and so should be excluded from a bill of rights which is meant to be enforceable (Evans 1973: 8-9). As it happens, the International Covenant on Civil and Political Rights excluded such provisions, and confines itself to claims which help protect the citizen from the state.

Property rights

There is one fundamental right, however, which finds no place in the International Covenant: the right to property. There is good reason to regard this as the single most important right of all. John Locke, the originator of modern thinking about human rights, used the term property in a wide sense to refer to the ‘life, liberty and estate’ of individuals; and in this sense ‘property’ means an area within which the individual exercises an absolute and inalienable control over his own destiny. In a narrower and more familiar sense, ‘property’ refers to assets which the individual owner may choose to sell or give to another. In Locke’s day, the claims of property were pitched against governments which levied taxes without the consent of their citizens;
parliamentary government was promoted as a legitimate alternative to tyranny in that it could finance itself without violating the rights of its subjects.

There is good reason to regard the right to property as the single most important right of all.

It would, however, be hard to maintain that modern parliamentary government, which operates on the basis of artificial partisan legislative majorities organised by the executive, preserves this element of consent on the part of the taxpayer. One of the most useful services a national bill or rights could perform would be to provide some basis on which individuals could appeal against confiscatory taxation and acquisition of property, and thus impose some restraint on the seemingly endless expansion of the public sector as a proportion of the economy as a whole.

At the very least, a bill of rights should, as Evans has suggested, extend to the States the obligation which the Constitution places on the Commonwealth, under Section 51 (xxxi), to make any compulsory acquisition of property on 'just terms' (Evans 1973: 14). The seriousness of the limitation of this obligation to the Federal government was recently revealed in the Coal Acquisition Act 1981 (New South Wales), which 'purports to reserve to the government an unfettered right to decide how much, if any, reimbursement will be paid, and to whom' (Walker 1982: 160). The creation of a national bill of rights provides an ideal opportunity to make good this shortcoming.

Right to strike

The International Covenant makes no reference to two further rights which Evans takes as basic: the right to work and the right to strike (Evans 1973: 14). The right to work raises important problems of interpretation, since it is a classic case of claim to non-interference becoming transformed into a claim for a certain kind of positive state intervention. Originally the right to work meant that no individual could be prevented from selling his labour on his own terms; nowadays it is usually taken to mean that the state should ensure employment for everyone who wants it. Evans himself regards it as belonging to the category of welfare rights which should be excluded from a bill of rights as such. However, if any move is made to include the right to work in a bill of rights, it should be made clear that the original sense only is intended; and the best way to do this would be to add a provision guaranteeing to individuals the right to opt out of the trade union closed shops.

As for the right to strike, it could be argued that this cannot count as a fundamental right, since it could come into conflict with other rights which clearly are basic. It would be hard to argue that workers in the essential services, for instance, should have an absolute right to strike, in view of the damage that such strikes inflict on the general public. But it is probable that the trade unions would press for some such kind of right to be included as a quid pro quo for the individual right to avoid union membership. In this case, the most satisfactory solution would be to qualify the right to strike by excluding from its operation all contracts of employment which explicitly ruled out strike action.

An Act of Parliament?

In his speech of 7 July, Gareth Evans
stated that although the proposed bill of rights would initially take the form of an act of parliament, it should eventually become part of the Australian Constitution. The unstated assumption was, presumably, that public opinion needed some preparation if the necessary referendum was to stand a chance of succeeding.

It would be hard to argue that workers in essential services would have an absolute right to strike.

But there are two serious drawbacks in giving a bill of rights the relatively commonplace status of ordinary legislation. The first is that parliament has the legal right to override, amend or even repeal any of its previous legislation. It might be said that the moral pressure against it doing this would be overwhelmingly great; a bill of rights would over time acquire a stature which elevated it in practice, if not in strict law, above routine acts of parliament. Yet the Attorney-General clearly envisaged ad hoc exemptions of pieces of future legislation from the operation of a bill of rights, and stated that the justifiability of such exemptions would be a matter for 'political judgement'. One might well wonder how seriously the government takes its obligations under the International Covenant when, at this early stage, it proclaims that the operation of the bill is really at the discretion of the parliament. Even if the present parliament does regard the bill of rights as a genuine set of limitations on its powers, future parliaments might be tempted into routine exemptions, thus allowing the bill to degenerate into a mere statement of aspirations.

Need for consensus

The second drawback in the proposal to base the bill of rights on an act of parliament is that it will deprive the bill of the degree of popular involvement in its creation which quasi-constitutional changes ideally need. Even if the legislation wins the support of all parties, the impression will remain that it is still the creature of a particular parliament in all its transience, especially since the power of parliament to impose future exemptions from its operation will inevitably be a major topic of parliamentary debate. A government anxious to build consensus throughout the community should be open to ways of promoting genuine popular participation not only in the actual formulation of the bill but also in its implementation.

Both these problems would be solved if the government decided to try to entrench the bill of rights in the constitution. As a part of the constitution it would be clearly and unambiguously superior to ordinary legislation. All future parliaments (barring further amendments) would have to live with it and legislate within its limits. The referendum campaign would elicit a measure of popular concern by devolving the burden of the implementation of the bill on to the people themselves; this would be appreciated especially in the outer states, which have some reason to be sceptical of legislation based on the external affairs power. Of course the referendum could go against the bill; but if Australians are not in fact convinced of the utility of a bill of rights, it is best that this be known. A bill of rights imposed on an apathetic public by act of parliament could devalue the very idea of the legal protection of human rights.
Some recommendations

Finally, it might be useful to summarise the specific recommendations contained in this essay.

1. A bill of rights based on the International Covenant on Civil and Political Rights should include the right to property. At the very least it should provide for national application of Section 51 (xxxi) of the Australian Constitution (the 'just terms' requirement).

2. If the right to work is to be included, it should provide for the right to opt out of the closed shop.

3. If the right to strike is to be included, it should not apply in the case of legally binding agreements to refrain from strike action.

4. The government should attempt to secure for the bill full constitutional status in the first instance rather than leaving this to an unspecified future date.

REFERENCES


Ideas and Insights

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

Privatise State Enterprise

There has been mounting concern in Australia about the poor economic performance and inadequate financial reporting of many government authorities.

They often have relatively generous employment conditions and governments show an increasing tendency to use them as revenue gathering agents. These facts raise the issue: Whose interests are really being served by state enterprise?

In the U.K. it has been argued:

"The so-called 'public' enterprise are neither owned by the public nor shining examples of British enterprise. They are owned by the State, and are run primarily for the benefit of the organised producer groups operating within them. The public enters into the picture mainly as taxpayers with apparently unlimited liability to fund their losses. Since 1945 something well over $35 billion has been transferred from taxpayers to the 'public enterprise'. The costs to British economy, in alternative business and investment opportunities foregone, have been enormous".


Deregulate Industry

In the U.S. and U.K., Governments have started to turn back the regulation tide. John Elliott, managing director of IXL Ltd., argues Australian industry is over-regulated, with adverse effects on our economic growth and prosperity. He quotes an example of how regulation lost profits for his company and jobs for the community.

"...Our company is the largest jam maker in Australia. A few years ago we were going to make a really high quality jam — it would have contained 65% fruit and a very low sugar content. We believed we had a very innovative product that would sell at a premium and meet market demand. We went to the Victorian Government to obtain the permission to market the product. We found we couldn’t call it jam. The reason; the product did not contain 45% sugar. This law was introduced in the 1920s to help stimulate the sugar industry. We would not be able to have it repealed for another two parliamentary sessions and to sell it outside Victoria we would have had to get all the States to agree. It would have taken us three years expense and work to do so, without any guarantee that we would be successful. So we dropped the product, lost potential profit growth and jobs."

Consensus on Limiting Government

For over 100 years the Fabians have taught that government is the essential instrument of both efficiency and humanity. For 50 years followers of Keynes have taught that government can ensure full employment by 'managing' national demand. In the 1980s this role is being questioned by influential people in all the main British political parties.

"Without abandoning their emphasis on equity or humanity, more leaders and thinkers in all parties, Conservative, Liberal Social Democratic and, to a larger degree than is made public, Labour, now believe it cannot be assured by the centralising state, that government has been allowed too much control of economic life to the point of endangering both prosperity and liberty."

"But perhaps more unexpectedly, yet for that reason more hopefully, there is increasing assertion that the prosperity required to sustain humanity and abolish poverty requires increased use of decentralised institutions based on individual, group, local initiatives, voluntary, mutual, competitive or commercial, that reflect better knowledge of local circumstances, family preferences and individual aspirations. This change in emphasis is heard most from some leaders, academics and rank-and-file in the Conservative and Social Democratic Parties".

Agenda for Social Democracy, (Institute of Economic Affairs) May 1983

Improve Educational Standards

Debates on school funding, teacher salaries, private versus public education and so on have tended to 'crowd out' the key issue of educational standards and how our schools and teachers can be made more responsive to the needs of students. In the U.S., there is vigorous questioning about the educational philosophies which have lead to decline in student performance.

"...for most of the 1960s and 1970s, it was fashionable to believe that nothing a school did made a difference in student achievement. According to the traditional wisdom, the socio-economic level of the students was the most important factor in academic success. It is a commentary on the balmy quality of the last two decades that an idea so radically in conflict with personal experience and informed judgement could gain credibility."

"Schools do make a difference. According to research, students learn more if the school sets high standards, assigns homework, emphasises discipline, has a strong curriculum, and is staffed by good teachers. In short, a school’s educational programme has a very major influence on what a child learns."

What makes a difference in educational programmes is not exclusively money (although it surely helps), but how that money is spent.

Denis Doyle and Terry Hartle "The Federal Government and the Schools" Journal of Contemporary Studies, Winter 1983
Decentralize Government

Two such disparate regimes as the Socialist Government in France and the Republican Government in the U.S. have committed themselves to a substantial degree of decentralization and devolution of central government power. These moves are in sharp contrast to the current Australian experience.

"The hallowed tradition of prefectoral government in France is due for substantial overhaul and change, giving greater powers to locally elected executives and legislatures. The enormous structure of central government grants to state and local government in the United States is already under-going substantial overhaul...."

"And whether or not these large-scale proposals come to fruition, we are also being told that, at the crudest level such measures are seen as politically popular. From the point of view of the future of social policy, this suggests a good deal of discomfort with the long-received view that central administration and national rules are in various ways more desirable than local variation. At the level of political philosophy, this suggests that there is growing discontent with the capacities of a centralized government to manage effectively and efficiently or equitably the vast range of social services that have become a major part — indeed the major part — of the activities of government."

Nathan Glazer "Towards a Self Service Society", The Public Interest, Winter 1983

Radical Liberalism

The Report of the Liberal Party Committee of Review (The Valder Report) points the Party in a direction which requires a radical break from the long Australian tradition of making policy to suit the demands of special interests — unions, business, statutory authorities, welfare and environmental lobbies and so on. The Report suggests the Liberal Party should stand four-square for the interests of majorities, for the public interest, rather than special interests.

"There is always a tendency for governments to hear the voice of the well-organised special interest, and to neglect the less vocal body of consumers, taxpayers and families. It is not beyond the wit of most special interests to represent their proposals as also being in the public interest. It is, therefore, essential that the Liberal Party in government have clearly in mind in formulating policy the distinction between such rationalisations and a clear recognition of the public interest..... This requires that, as far as practicable, major statutory and private organisations be subject to market disciplines, which reflect the values of Australians as a whole, and not be the recipients of special restrictions and privileges against competition."

"Workfare" and more stringent eligibility criteria for welfare benefits are two initiatives in the welfare area introduced by the Reagan Administration. Both appear to be gaining acceptance as well as helping curb the previous alarming growth of dependency and the burden on the budget.

The Reagan Administration has initiated some of the most important reforms of welfare in recent U.S. history. Popular reports of changes in U.S. welfare have focussed on anecdotal hardluck stories, the impact of the recession of 1982, and the difficulties of the Administration in getting its legislation passed by the Congress. The great unwritten story is that the interesting ideas for reform are these days coming from the political right. The left has been reduced to resisting any change in the status quo, knowing that budgetary constraints make their new programmes infeasible.

Workfare is welfare payment made conditional on work, or preparation for work.

It was introduced into the U.S. in 1981 within the oddly-named Omnibus Budget Reconciliation Act, known as "OBRA." That offered State Governments (they actually administer and pay 50 percent of the cost of welfare in the U.S.) the option of using federal welfare funds for various "workfare" programmes. OBRA allowed States to introduce workfare schemes on an experimental and selected basis or state-wide, whatever they chose. As of the latest check around by the Federal Office of Family Assistance, June 30, 1983, there is workfare being done in some 23 States out of 54 (including territories). In no places the federal office knows of, has workfare been abandoned, and the general trend is for steadily increased use of the workfare provisions of the federal law.

Entitlement conditions

Workfare is a break with the idea that welfare payments are an entitlement without conditions. Robert Carleson, Reagan's director of welfare in California has expressed the thought behind workfare in these terms: "Anyone who is capable of working should expect to earn their welfare benefit." The work ethic is at the heart of workfare. It makes one condition of receiving welfare that applicants do some unpaid public service work, some job training or job search.

In the case of public service work, (CWEP Community Work Experience Programme in the jargon) the welfare recipients do jobs such as policing parking meters, or doing basic work in courthouses, hospitals, libraries, parks and schools. Their monthly welfare entitlement, say $500, is divided by the statutory minimum wage, presently $3.35/hour, to derive the number of hours (in this case 149 3/4 hours per month) of unpaid public service employment required of that person in order to receive welfare. It is up to state welfare authorities to determine the rules under which workfare operates, but they are free to make deductions from welfare payments for CWEP participants who do not do their allotted workhours. The principles of workfare can also be applied to job search and training schemes.
Workfare is a break with the idea that welfare payments are an entitlement without conditions.

In Virginia, near Washington DC, workfare is mainly being harnessed to make AFDC (Aid for Families with Dependent Children) dependant on satisfactory attendance at work training sessions and participation in job search and job training. There is some public service employment required of a few welfare recipients, but the Virginia authorities say they can get most work-capable welfare cases real jobs after job search and training schemes.

Workfare is not applicable to welfare recipients with very small children, or those who are severely handicapped or old aged. “We aren’t requiring people in wheelchairs to split firewood” says Ken Lee of the Office of Family Assistance in Washington DC. There has been a proposal to apply workfare provisions to food stamps programs and some states apply it to their own “relief” welfare which tends to cover single persons ineligible for federal welfare schemes (which focus on families). Unemployment insurance pay in the US, like age pension money (“social security”) is not usually described as welfare, being dependent to a degree on past contributions in paid employment. Unemployment insurance payments are limited in time, usually to around a year, and people whose unemployment money has expired and who are still unable to find work, may then go on “welfare” — applying for AFDC in cases of family heads, and for food stamps and state relief.

Praise from welfare workers

Workfare is praised by an increasing minority of welfare workers. Their theme is that even if the work performed is not of huge value, it is worthwhile in improving the morale and motivation of participants. Heidi Hsia and Rochelle Herman, psychologists at Gaithersberg (Maryland), wrote: “For a long time we have witnessed the devastating effects of welfare … but until now it was not considered fashionable and compassionate to be open about it. The truth is that welfare is the curse of the poor, not their saviour …” (Washington Post, Sept. 18, 1982). These psychologists went on to say that welfare without a work requirement for those able to work, steadily destroys self-respect and motivation and is a major source of family breakdown, mental disorders and individual irresponsibility.

Those working for their welfare reportedly feel better about receiving it, since they “have earned it.” Ken Lee of the Federal Office of Family Assistance says workfare has “extraordinary commonsense going for it.” He says resistance to it comes from social workers steeped in the handout tradition: “Opposition comes from a mind set against workfare not from any experience with it.” In its radical form, the 1960s welfarist ideology said impoverished people had an unconditional and indefinite right to live off taxpayers because they were seen somehow as “victims of society.”

“Welfare … is a major source of family breakdown, mental disorders and individual irresponsibility.”.

The Reagan Administration is more liable to see taxpayers as victims of a handout apparatus run amok, and argues
that there are no unconditional entitlements to welfare, since every payout involves a corresponding imposition on a worker via taxation. Lee attributes some resistance to workfare provisions to laziness on the part of some state officials. "It is much easier to simply hand out money than to make handouts conditional on something in return", he points out.

Ann Lineberry of the Virginia Department of Social Services based in the state capital Richmond, says she's doubtful workfare will work for a great many public employment jobs, but she's enthusiastic about it as a means of promoting job search and employment training.

It seems true that success in many welfare changes, like introduction of workfare, is heavily dependent on the enthusiasm of the people who will administer and implement it. Such schemes are difficult to impose from above.

And it is doubtful how many suitable public sector jobs there are for workfare. Such jobs are easily ridiculed as contrived "make-work", like Keynes' suggestion that people be employed digging holes and then filling them in again.

So while it may be worthwhile on a relatively small scale and where there are professionals keen to apply it, its potential in public service jobs is limited.

**Private sector and workfare**

The 1981 Reagan legislation on workfare did provide that grants to states be used for public "or private" employment. None of the states have taken up the invitation in those two words to extend workfare into the private sector, but there has been pressure to spell that out in amendments to the law. On May 25 this year the Administration took to the Senate legislation providing for workfare via subsidised private employment. This would allow states to use welfare funds to subsidise for up to six months the costs of welfare recipients in private sector jobs, under agreements reached between employers and state welfare agencies. The objective is stated to be "to facilitate the transition of such recipients from aid (welfare) to unsubsidised full-time employment, and promote, to the maximum extent possible, the ability of such recipients to achieve economic self-sufficiency for themselves and their families.

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**The Reagan administration is more liable to see taxpayers as the victims of a handout apparatus run amok.**

In one sense, job subsidisation is merely an attempt to undo some of the damage done to employment by the minimum wage law. By subsidising jobs, by allowing a lower cost of employment to the employer, more employees will be hired. That's because millions of relatively low-productivity workers in the US are presently priced out of jobs at $3.35 an hour.

Under the new workfare amendments however, welfare payments could be made to the temporary employer of the welfare recipient to subsidise the minimum wage.

The legislation seems to have got nowhere as of September (the time of writing), because the Congress is preoccupied with other matters and is presently rather unsympathetic to Administration bills.
The May 1983 proposed amendments would make public service and job search "workfare" mandatory. That will be vigorously resisted at least by the states that have so far had nothing to do with the idea — over half of them.

Few bills become law in the US without extensive negotiation, compromise and amendment and the "Social Welfare Amendments of 1983" will be no exception. The Administration claims in its costing of the amendments that making workfare mandatory for AFDC welfare would save around $1.4 billion over four years. If those estimates stand up to congressional Budget Office scrutiny, that could provide a powerful draw to a congress worried about a deficit and on the lookout for savings.

**Minimum wages**

Private job subsidisation is nothing new in itself. There's a long history of different schemes supported by the US Department of Labour and administered by state employment services for placing marginal workers in jobs with wage subsidies. What is new in the May 1983 bill is the concept of using welfare funds for this purpose and attempting to have welfare recipients earn their welfare benefit through its application as a wage subsidy. The idea is obviously a second-best solution in that abolition of the obstructive minimum wage would be the optimum. Given the mythology and union power preventing removal of the minimum wage, job subsidisation may be preferable to prolonged idleness and unemployment.

**Tighter Eligibility**

Together with the introduction of workfare, the 1981 OBRA Amendments tightened eligibility for welfare and changed the structure of incentives facing the person seeking handouts from the government. These changes were almost universally criticised at the time, but thorough professional study of the changes in eligibility arrangements by independent consultants has vindicated the Administration.

Given the mythology and union power preventing the removal of the minimum wage, job subsidisation may be preferable to prolonged idleness.

The Reagan team were faced with an AFDC (Aid to Families with Dependent Children) welfare scheme growing rapidly and with an increasing proportion of the funds going to families well above America's rather generous $9800 poverty line (for family of two adults and two children). It was the object of the new Administration to focus welfare more on the "truly needy", that is those below the poverty line and to cut back partial dependence on welfare by workers. The amendments are somewhat complicated, but key elements are (1) a 150 percent of state need standard as total allowable income ceiling for welfare recipients (2) standard work-expense and child-care "disregards" (akin to "deductions" in Australian usage) (3) the "thirty and a third disregard" meaning first $30 and a third of any income earned being an allowable deduction, was to be available for only four months of welfare, rather than indefinitely.

There was almost universal criticism to the effect that this implicit high marginal "tax rate" would have the perverse result of keeping people on welfare and discouraging the transition to work.
Earlier studies of such "sudden death" cut-offs of welfare provided some basis for these fears.

Consultants to the Social Security Administration studied the case histories of welfare recipients before the amendments and after. Their report (Evaluation of the 1981 AFDC Amendments, Final Report, submitted to Office of Family Assistance, Social Security Administration, Department of Health and Human Services Research Triangle Institute,) found that contrary to the fears on critics, the tougher eligibility and closer focusing of funds on the very poor, encouraged working welfare recipients right off welfare much more than it encouraged them to give up work for welfare. It had the desired effect of encouraging self-sufficiency.

Tougher eligibility and quicker cut off can simultaneously save money, get people off welfare, and concentrate funds on the needy.

"Earners in the 1981 sample were substantially more likely than pre-OBRA earners to be off the AFDC (welfare) rolls a year later: 55 percent on 1981 earner cases were not on AFDC at this time compared with 28 percent of 1980 earners".

Moreover they were better off working. 87 percent of those who left welfare managed to get jobs. Their average earnings were $704 (per month, as US pay is always expressed) 61 percent higher than the earnings of AFDC earner recipients before the tougher eligibility amendments.

The success of the tougher eligibility changes was quite amazing in that the economic recession of 1982 made it harder for the post-amendment welfare people to find work than the pre-amendment cohort of welfare recipients. The New York Times (25.10.82) anticipated these findings in a round-up of reports from state welfare administrators and academics specializing in welfare. A General Accounting Office study for the Congress to be finalized next year, will have a major effect on the direction of welfare reform in the US, if it too endorses the findings that tougher eligibility and quicker cutoff, can simultaneously save money, get people off welfare and concentrate funds on the needy.