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The Institutes of Public Affairs seek to promote awareness and debate in matters of community interest. A basic aim of the Institutes is to advance the cause of free business enterprise in Australia. In pursuit of this aim they endeavour:

• To inform the Australian public of the facts of our economic system and to raise the level of economic literacy in Australia.
• 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.
New “National” Review

To Our Readers

This Autumn edition marks a further step forward for the IPA ‘Review’. For the first time the ‘Review’ is being distributed by all three IPAs.

Some readers of ‘Review’ may not be aware that in addition to the IPA in Melbourne, there are also IPAs in Sydney and Brisbane.

These Institutes were established independently as separate entities each with its own Council, subscribers and work programmes. The independence of each will continue but a number of steps have been taken to ensure a closer association between the three Institutes.

This ‘Review’ represents one of these steps.

The new arrangements offer important advantages. The range of expertise available to ‘Review’ will be broadened, ‘Review’s’ circulation will be expanded and, because our ideas will reach more people, we hope that the support available to the Institute will be strengthened.

The IPA ‘Review’ concentrates on issues which are of special importance in the area of public policy — tax reform, government spending, economic regulation, constitutional reform, the media and so on.

In this issue, for example, we have a special focus on the media with contributions from Peter Samuel and Michelle Grattan.

The IPA (NSW) outlines its proposals on tax reform. Bob Ansett attacks government regulation and Professor David Kemp analyses the problems that inevitably beset government attempts at long term economic planning.

We believe the ‘Review’ is essential reading for those interested in looking at ways in which Australia’s economic performance can be improved and in building up a strong voice in defence of free enterprise and the values which underpin our social stability and our economic and political freedoms.

Rod Kemp, Editor

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

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.

Bob Ansett: Chief Executive of Budget Rent-A-Car and well-known spokesman for free enterprise issues.

Ken Baker: Tutor in the Department of Sociology at La Trobe University, he has written extensively on media issues.

Professor Peter Dixon: Professor of Economics and Director of the Institute of Applied Economic and Social Research at the University of Melbourne. He has been closely associated with the development of the ORANI model of the Australian economy.

Michelle Grattan: The Chief Political correspondent of the Melbourne-based newspaper "The Age". She has also authored a number of books dealing with political topics.

John Harrowell: A past National President of the Institute of Chartered Accountants, and for nearly five years a member of the Taxation Board of Review until his retirement in 1982.

Professor David Kemp: Professor of Politics at Monash University. Former Director of the Private Office of the Prime Minister, 1981.

Professor Geoffrey Meredith: Professor of Accounting and Financial Management at the University of New England in NSW.

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 15 years.

Dr. Stanley Siebert: Lecturer in the Department of Industrial Economics and Business Studies at the University of Birmingham, UK. He has written a book "The Market for Labour: An Analytical Treatment" and has acted as a consultant for the Royal Commission on the Distribution of Income and Wealth and the Manpower Service Commission.
Editorial
Restructuring the Economy
...Starting with the Government Sector.

Mr Hawke’s call for restructuring of the Australian economy — the diversion of resources to more productive areas of industry — makes not only economic sense but is fundamental to realising the aspirations of the Australian people.

Improved living standards, job security, expansion of opportunities, indeed, the funding of Australia’s social security system, can only come from economic growth.

The debate about restructuring the economy tends to focus on protected industries in the manufacturing sector. Unquestionably, however, the most inefficient, protected part of our economy is the non-market public sector, a sector larger in terms of its employment than manufacturing.

Any programme to divert Australia’s resources into more productive avenues requires a hard look at the total economy — private sector and public sector.

A key problem
The problems in ensuring that Australian resources are managed efficiently and that industry is competitive, often lie closer to the Cabinet room than the board rooms of industry.

In the last decade, there has been an unprecedented diversion of resources to the government sector.

• In 1970, the Government share of GDP (Commonwealth, State and Local) totalled some 31 percent. This year the Government share could rise to 44 percent.

• Virtually the only boom area of employment in the last decade has been in public sector and in (mostly Government financed) community services. OECD data indicated that public sector employment in Australia is one of the highest in the industrialised countries.

• The number of government acts and regulations imposing additional cost, frustrations, obligations on the private sector have multiplied throughout the decade.

The diversion of resources to the public sector has been carried out through huge increases in taxes and charges, large-scale borrowing programmes and deficit financing.

All these factors have a deleterious effect on the competitiveness of Australian industry and on the incentives of businessmen to invest in the future. They have also diverted massive quantities of Australian resources into investments which often have been made with little or no reference to market considerations.

Squeezed between the demands of employees fighting to retain their after tax incomes and governments, ever hungry for revenue, Australian industry has been burdened by a high cost structure and poor profitability.

Indeed, pressure from private industries for protection is in part a result
of the impact of public sector demands on business costs.

Unless the diversion of resources to the government sector is brought to a halt, and preferably wound back, then the taxation burden on the private sector must inevitably increase.

**The starting point**

What is the prospect of the Hawke Government containing the growth of the public sector?

It has to be admitted that the record to date is not particularly encouraging. Commonwealth expenditure increased by 8.2 percent in 1983/4, the highest growth for 9 years And it appears that the Hawke Government in its first year has increased the number of Commonwealth public servants by more than the previous government did in its entire 7 years of office.

Mr Hawke will be dealing very incompletely with the problem of structural adjustment unless he is prepared to look at the size, the privileges and the inefficiency of the public sector.

Comprehensive structural adjustment policies should include the following:

- Government spending should be slowed to at least an average real growth rate of no more than 2 percent per annum. This is the average rate of growth of spending under the previous government, a figure thought by many to be excessive. In fact, it could be argued that there is no real reason why, with the economy starting to expand again, there should be any real growth in government spending. It is desirable that the rate of growth in government spending be significantly less than that of the economy as a whole so that the private market sector can begin to expand after a decade of retreat.

- A ceiling should be placed on further public sector employment, and a start made with the introduction of employment flexibility. There must be an immediate halt to proposals that could increase rigidities, such as proposals to extend public-service-type tenure in education.

- A major increase in the extent to which market criteria apply to government commercial activities. This would desirably include a programme of privatization of government commercial activities, and greater marketization* of education and social service activities.

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*for example, use of voucher schemes to provide parents on lower incomes greater choice in relation to their children's education. Similar schemes could be readily applicable to social services such as child care.

Further Reading: Dr. Ken Minogue, The Seven Deadly Rigidities, IPA Review, Spring, 1983.
SAMPLE "REVIEW"

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IPA COMMENTARY

Privatization

...Agenda for the next decade

Electricity suppliers slashing prices as they compete for customers.

Public transport usage rising as private operators attract commuters with fast, convenient and cheap services.

Qantas and TAA shares rising on the stock exchange as they report healthy profits.

Telecom and Australia Post vigorously competing with private operators for customers.

Fantasy land?
Yes, at present.

But five or ten years out — well, the possibilities are there.

Certainly an interesting array of economic, political and intellectual forces is setting up the circumstances for wholesale restructuring of the public sector.

And a key aspect of this restructuring should be the sale of major public authorities to the private sector, or 'privatization'.

What are these forces?

First, governments all around Australia are starved for funds. Selling off public assets, which is already occurring in some States, must gather pace. It is a handy way to keep down taxes or to find more funds to spend.

Second, there is a growing realisation in the community that public authorities are often better at serving the interests of their employees and management than of their customers.

Third, public authorities have acquired a well-deserved reputation for being high-cost suppliers. Public-service-type rules and regulations, plus their ready access to the politicians and the treasury means that the search for economies does not receive sufficient priority.

Fourth, the problems of ensuring proper accountability of public authorities have become a continuing political issue since the 'Rae Report' in 1978 drew attention to the lack of effective controls. An increasingly influential school of economic thought argues that market forces are more likely to serve public interests than political controls.'

Fifth, public support for authorities is undoubtedly being eroded because of their politicisation. It is increasingly perceived that pricing structures can favour powerful special interest groups. In Victoria, this politicisation has taken a significant step forward with some public authorities being used, in effect, as tax gatherers.

Finally, there is the demonstration effect of the Thatcher Government's privatization programme and the de-


regulation in the U.S. of some major utility suppliers. Australia must catch on soon. (See Dr. Siebert's article on page 21).

Which Party will take up the challenge?

The Liberal Party would seem most likely to carry forward a programme of privatization. At the State and Federal level some modest proposals have been floated.

The traditional support by the Labor Party for the public sector may seem to preclude any privatization programme. Yet, Premier John Cain, has already sold almost $500 million of Victorian public assets since he came into office.

Economic Crimes

...business bashing in Australia

Attitudes to private enterprise help determine a country's economic performance.

Are investments and profits to be encouraged or restricted?

Is enterprise to be supported, or hamstrung by regulations?

Is business a worthy career for the 'best and brightest'?

These sorts of attitudes have a significant effect on the environment within which business operates and on its ability to perform its role as the engine of economic growth, employment and living standards.

Stephen Lusher, a National Party Member of Parliament, has shown how far Australians will go to penalise enterprise.

He produced a list of businessmen who have been subjected to the extreme penalty of imprisonment to enforce laws which have the effect of restricting enterprise.

*In the early 1970s a Grafton dairy farmer went to gaol because he did not want to pool his milk with a product which he considered inferior. He was not allowed to install his own pasteurization plant and was gaoled for making illegal sales of milk.

*In 1977, a farmer from Yass, spent 16 days in gaol for selling eggs other than to the Egg Board.

*In February 1981, a Perth man was gaoled because he carried scrap iron on his truck in competition with the State Railway without its approval.

*In March 1981, a market gardener in Adelaide was sent to gaol for selling cucumbers without a license.

*In April 1982, a 38 year-old mother of five was gaoled for refusing to pay a compulsory hen levy.
*In December 1982, a Brisbane shopkeeper was gaoled for selling tinned food after-hours in his suburban corner store.

*In January 1983, a Melbourne businessman was given 5 days gaol for selling billiard tables on a Sunday.

No one would argue that the law should not be enforced.

But these examples do highlight a curious set of values. The full force of the law is used to penalise the entrepreneur.

The fact that this sort of 'businessman bashing' can occur without a community outcry (in contrast to that which occurs with, say, the gaoing of a union official) shows how distorted our values have become.

The restructuring of the economy — being promoted by the Prime Minister — will have to deal with basic community attitudes.

The Welfare Bill

...Ageing is not the only problem.

Much of the recent debate on the growth of welfare has focused on a need to contain spending on pensions for the aged.

The introduction of an income test on pensions for the over-seventies and the proposal for an assets test are aimed particularly at containing the growth of expenditure on aged pensions.

Over the last decade much of the impetus for increased Government spending has come from other pension areas. As the table shows the total number of people in receipt of pensions and benefits increased by 1,432,000 in the decade to 1983.

<table>
<thead>
<tr>
<th>SOCIAL SECURITY RECIPIENTS</th>
<th>(Numbers '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Pensions</td>
<td>950</td>
</tr>
<tr>
<td>Invalid Pensions</td>
<td>171</td>
</tr>
<tr>
<td>Widows Pensions</td>
<td>106</td>
</tr>
<tr>
<td>Supporting Parents</td>
<td>-</td>
</tr>
<tr>
<td>Unemployment Benefits</td>
<td>38</td>
</tr>
<tr>
<td>Sickness Benefits</td>
<td>18</td>
</tr>
<tr>
<td>Special Benefits</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>1287</td>
</tr>
</tbody>
</table>

The major growth area was in the unemployed — providing 42% of the increased numbers over the decade. The aged account for about 33% of the increase. The rise in invalid and supporting parents pensions accounted for much of the remaining 25%.

These figures do not include the dependants of those receiving social security benefits. When allowances are made for this factor, over two-thirds of the increased expenditure on social security pensions and benefits over the last decade has been caused by the increasing dependency on social security among people of workforce age.

Clearly unemployment has been an important factor in the growth of the social security budget.

But the increase in spending also reflects decisions by successive Commonwealth Governments to increase the range of pensions and benefits (e.g. supporting parents benefit) and make it easier for people to obtain access to social security.
Indeed, it appears that social security support in Australia can be more easily obtained than in many other countries.

For example, Dr. Sydney Sax, the former head of the Commonwealth Social Welfare Policy Secretariat, has argued that "The Australian system of minimum income support is one of the most comprehensive in the developed world. Australia has come closer than any other Western nation to having a guaranteed minimum income. All but those who are able to choose not to work are assured of some income".

The need to bring Australia's unemployed rate down to more acceptable levels is clearly fundamental to a strategy of containing the welfare budget.

Other eligibility criteria (apart from the income test) governing access to social security may also need to be examined (work test, medical test for invalidity, sickness benefits, rules governing the supporting parents benefit and so on).

A genuine attempt to contain Australia's burgeoning welfare budget (which is apparently desired by all main political parties) cannot be solely concentrated on the aged.

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**Economic Regulation**

**...theory and practice**

Economists offer two broad explanations for the mass of government regulation which seems to weigh down our economy.

The 'public interest' explanation suggests that much governmental regulation seeks to promote economic efficiency which, among other things, helps protect the public from the unfair exercise of economic power.

The 'private interest' theory, on the other hand, argues that special interest groups seek advantages for themselves through regulation. Governments, seeking to win or maintain the support of these groups introduce regulation. The benefits of regulation are concentrated on the special interest groups while the costs are widely dispersed, and scarcely perceived, among the public.

The 'private interest' explanation is gaining support. Economists are finding that in the majority of cases regulation seems to reduce rather than enhance economic efficiency.

Certainly the continuing issue of shopping-hours' regulation highlights how Government interference in the market can work against both economic efficiency and the public interest.

Interestingly, it also shows how regulation can ultimately damage the industry it seeks to protect.

Australian shopping hours regulation throws up a host of anomalies for producers, shopkeepers and customers. A recent example which has come to our attention shows how the red meat section seems particularly disadvantaged.

Basically, red meat does not have the same legal hours of sale as many other products, such as fresh or frozen chicken, fish and a multitude of processed foods.
Supermarkets which sell over 50 percent of red meat in Australia are restricted in the hours that this product can be sold in most States.

In Victoria the restrictions are most severe. It has been estimated that a working housewife in a full-time day job has only about 7 percent of the time meat departments are open in supermarkets in which to make purchases.

In Queensland there is an antiquated law that calls for a separate partitioned-off area within supermarkets in which meat must be sold.

The history of these restrictions on meat sales appears to relate to the views held in sections of the meat industry and the trade union movement that the best way to maintain meat sales is to preserve the specialist butcher. Instead, the effect of restrictions has been to encourage consumers to purchase alternative foods.

Per capita consumption of meat in Australia has fallen dramatically, while consumption of fresh poultry, for example, has almost doubled in the last ten years.

It would seem that the best way for red meat to recover its market share would be for the product to be available in the widest possible number of locations.

The 'private interest' theory of regulation helps explain the history of shopping hours regulation.

What is more difficult to fathom is why primary producers have been prepared to accept restrictions which are clearly to their detriment and, indeed, to overall employment prospects in the meat industry.

### Consensus on High Unemployment

...because of industrial and political 'realities'

Unemployment of around 10 percent really amounts to a grave breakdown of our economic system. One of the prime duties of governments — as Western societies recognised around the end of World War II — is to endeavour to rectify that breakdown.

For over a quarter of a century after the War Australia enjoyed the inestimable benefits of full employment. Although we did not think so at the time, it now appears, in retrospect, like a "golden age". In the last 10 or so years we have been plagued with high unemployment — sometimes over 10 percent and no end to it is yet in sight.

What has changed? What has gone wrong?

One thing that now seems to be lacking is the determination, the will, to find a solution. As in the years after the war we become accustomed to taking full employment for granted, we seem now to have formed a "consensus" on the inevitability of high levels of unemployment. We are told repeatedly that the days of full employment are gone for good and that there is no hope or prospect of their ever returning.

Those fortunate enough to be in work hardly give a passing thought to their unfortunate brethren trampling the streets in search of a job. Any twinge of conscience the employed may feel now and again for those without jobs is allayed by the thought that they are providing for them through their taxes.
These attitudes would have been inconceivable to most of those who lived through the years around the end of and after the War. The War gave rise to a universal determination that the world post-war would be a better place in which to live, that the chronic unemployment of the "in-between" years would not be repeated, and that everyone would have the opportunity to work and would enjoy some measure of economic security.

The striking change in community attitudes towards unemployment is graphically illustrated by the following quotation from an editorial in the IPA Review, January/March, 1973:

"Unemployment has assumed the proportions of a grave and critical issue in the minds of the community because of the activities of the media — particularly television and the main daily newspapers. Scare, front-page headlines in the daily press of the monthly unemployment figures appear with predictable regularity and the same evening are invariably followed by doleful discussions on T.V. and radio current affairs programmes. A year or so ago when unemployment soared to around 2 percent, one station backed its commentary with pictures of the soup queues of the Great Depression when unemployment was near 30 percent."

Enough said!

The plain fact is that there is no political leader — Liberal or Labor — who is prepared unequivocally to commit his party to achieving levels of unemployment which were taken for granted just over a decade ago. This is a failure of will which Australians will not tolerate indefinitely.

Many of the policies which work towards this goal, such as relating wages to the capacity of industry to pay, cannot be adopted, we are told, because of "political realities" or "industrial realities".

As Professor Peter Dixon points out on page 28 high levels of unemployment are not inevitable; full employment is an achievable objective. The IPA will be publishing contributions in future from other experts on policies which work towards a full-employment economy.

Chifley and Menzies and their followers regarded full employment as the foundation of a stable, caring and progressive society.

The fact that in 1984 we are contemplating continuing high levels of unemployment is surely an indictment of the prevailing climate of opinion, particularly of the failure of our leaders to face up to and come to grips with the existence of a major human tragedy in our midst.

The ‘light on the hill’ for the 1980s, for all political parties, should be full employment.
Case Study:

Busting Monopolistic Practices: The ‘Budget’ Story
by Bob Ansett

Government regulation often supports monopolistic practices. But consumers, businesses and Government can all reap benefits from a more competitive market, as this case study of the car rental market shows.

Looking back at the lessons learnt over the past 5 years it is clear that competition brought about some very positive benefits into the car rental industry.

First, the cost of renting a car, allowing for inflation, dropped below what it was in 1970.

Second, the consumer was the beneficiary of a vastly improved service.

Third, new innovations, including computerised Central Reservations Systems and a much wider variety of rental cars, were introduced.

Fourth, the Government ended up tripling its income from Car Rental airport operating rights.

And, contrary to the Avis argument that competition would mean a contraction of services, there are in fact today many more Australian cities serviced by the Car Rental Industry than was the case when Avis had a monopoly. Budget alone operates from over 220 Australian cities.

The industry in the past 5 years has doubled its size and, more importantly, the percentage of the public renting a car has grown from a meagre 3% in 1965 to in excess of 20% today.

History

The Australian Car Rental Industry had its real origins in 1953, the year Eric McIlree, founder and Managing Director of Avis, returned from a hurried trip to the United States where he saw great progress being made in that market place by Avis and Hertz. He was particularly fascinated by their concept of Fly and Drive.

Immediately upon his return to Australia he registered the names Avis, Hertz, National and Budget.

The concept of flying and then driving did not gain immediate public acceptance.

McIlree then began negotiations with both Avis and Hertz in an effort to establish an affiliation which would provide for an exchange of reservations and credit card acceptance. Ultimately an agreement was struck up with Avis and Avis Australia was born. At the same time he notified Hertz that he would sell them back their name ten years hence for the sum of $1.00AUS thus giving Avis a ten year head start over its arch rival.
Following the American experience he then canvassed airline operators and easily persuaded them to co-operate with the establishment of Car Rental facilities at capital city airports.

With the support of the airlines he then persuaded the Department of Civil Aviation that there was a need to provide car rental facilities at capital city airports and ultimately entered into a concession arrangement with them.

The concept of flying and then driving did not gain immediate public acceptance. However he persevered and gradually demand increased.

Several years later, Mr. Alex Katranski, moved from New Zealand to Australia and established Kay Rent A Car. Shortly thereafter he persuaded the Department of Civil Aviation of the need for a second operator at capital city airports and ultimately gained the appropriate authority which was subject to his company servicing the same number of airports as Avis.

Kay found it economically unattractive to operate in some of the smaller capital city airports, and elected to concentrate primarily on Melbourne and Sydney, a fact which was hammered home loud and clear by McIlree.

As a consequence of McIlree's complaints the Department of Civil Aviation then called for a 3 year solus Airport Car Rental Tender that required the successful operator to provide services at an increased number of Australian Airports. Avis won the tender and continued to build their airport business. In 1964 a 5 year solus agreement was put to the Car Rental Industry for tender which was once again won by Avis ensuring a monopoly until 1969.

Budget lobbied parliamentarians, government departments and used T.V. to draw public attention to the iniquitous monopoly.

The year preceding the expiration of this contract saw Eric McIlree devoting a great deal of his time toward convincing the Government and the Department of Civil Aviation of the need to have a 10 year solus contract, which he argued was necessary for the operator to enlarge its network of offices covering every Civil Aviation Airport in Australia.

He argued there was insufficient business at airports for 2 operators as the high volume outlets really subsidised smaller airports particularly in country and remote areas.

Both Kay and Hertz who had recently entered the Australian Market after doing its 10 year penance, called for more than one operator but they were unsuccessful. Again because of Avis' size and market strength, they once again won the tender based on a very complicated formula of payment. Overall the percentage worked out to be just under 4% which was low on International Car Rental standards.

Budget's development

After Hertz entered the Australian market in 1963 Eric McIlree saw a threat to the dominance of Avis through Kay Rent A Car's increased downtown activity and now, with the International Hertz organisation joining the fray, he feared a loss of downtown business. Still owning the names Budget and National Rent A Car he decided to further frustrate the
development of his competitors by creating a downtown discount company under the name of Budget.

I was employed to develop the company. Our objective was to divert downtown business from Hertz and Kay by offering a “walk-in, drive out” discount car rental service, thus allowing Avis to concentrate at the top end of the market at airports and in the Travel Industry with Hotels and Motels.

Budget grew rapidly and ultimately became Avis’ major competitor. When Eric McIlrree died in 1973 I purchased Budget from his estate.

The sale was completed in the latter part of 1974 and my first objective was to link Budget Australia with the International Budget Organisation. At this particular stage Budget had approximately 10% of the Australian Car Rental market which at the time had a turnover of about $25 million employing approximately 6000 vehicles.

Market shares were roughly:
- Avis 55%
- Kay 20%
- Budget 10%
- Hertz 8%
- Others 7%

After establishing a trading relationship with Budget International we immediately commenced our own lobbying campaign aimed at opening airports to competition. With 60% of the total Car Rental business being conducted at airports Avis had a unique advantage over the rest of the Industry.

Budget not only lobbied Parliamentarians and various Government

Supported by heavy advertising campaigns, the industry showed remarkable growth.

Departments but used television to draw public attention to the iniquitous monopoly enjoyed by Avis. The advertising campaign was predicated on the “Freedom of Choice” theme.

About the same time the Trade Practices Commission came into effect and we put forward a submission stating that the Avis’ monopoly was in restraint of trade. However, at the time Government authorities were exempt from the provisions of the Act, so our argument was unsuccessful.

During the next few years Budget however expanded its network of offices growing rapidly from 20 to over 80 in 3 years. The Company’s market share increased accordingly by a further 5%.

Ansett purchase Avis

In 1977 Ansett Transport Industries purchased market leader Avis from the estate of Eric McIlrree. Six months later TAA followed and acquired Hertz.

The Ansett purchase of Avis was challenged by the Trade Practices Commission and, after a lengthy and costly hearing, Justice Northrop determined that Ansett’s ownership of Avis would not enable them to ‘control or dominate’ the Australian Car Rental market.

During this period the Industry was the beneficiary of enormous visibility as it was the first to challenge Section 50 of the Trade Practices Act and of course it
involved a dispute among members of the Ansett family. Supported by heavy advertising campaigns the Industry showed remarkable growth during this period.

We introduced the “flat rate” which was ultimately to revolutionise the car rental industry.

In the meantime Budget began preparing for the new Airport Contract that would commence in 1979. We wanted to ensure that all arguments were put to the Department of Transport, as it was then known, so that when the new contract was formulated it would take into account factors that were not previously considered. We argued that competition would increase the market and that there was no longer any validity to the Avis claim that if volume be shared at major airports, remote and country areas would lose services. At the time Avis publicly stated that should they lose their exclusive position at airports after 1979 they would withdraw from country and remote areas. I then gave a public undertaking that Budget would replace them instantly should they follow this course of action.

I also argued that it was vital to have representation in all country and remote areas because the Car Rental Industry is by its very nature global and to secure volume commercial business from Australia’s largest companies, it was necessary to offer a service at all Australian Airports. Admittedly many of the areas serviced would be unprofitable but collectively they contributed toward a network that would be, in totality, profitable.

In October 1978, seven months before the expiration of the 10 year exclusive contract enjoyed by Avis, the Department of Transport announced terms and conditions for a new 5 year Airport Car Rental Agreement.

Basically it recognised there should be more than one operator but stipulated a maximum of two. One operator would have an entire national network and the second, to be tendered on an airport by airport basis which, by its very nature would create fragmentation, would probably make the second operator impotent.

**Lobbying campaign**

I mounted another extensive lobbying campaign both publicly and behind the scenes with the then Liberal Government. Ultimately I gained an audience with the Prime Minister’s Department which enabled me to explain our position which basically declared that if there were only 2 operators, it would more than likely be Avis and Hertz who were owned by the two domestic airlines, and the only difference to the consumer would be the colour of their uniforms.

The issue finally became a Cabinet matter and ultimately the Department of Transport was instructed to reconsider its Airport Car Rental Tender. In early January 1979 it came back with a revised agreement calling for 2 national operators and a third position to be tendered on an airport by airport basis.

By this time the Car Rental Industry had grown to an annual turnover of $75,000,000 operating approximately 12,000 cars.
In July a new airport contract will come into effect and it is likely there will be four national operators represented at these airports.

Budget spent the next six months formulating a tender response concentrating on individual airports — a total of 58. We also put in a secondary bid for the national position but we were not at all confident of winning, believing the combined financial strength of Ansett and TAA would ensure that their subsidiary car rental companies would win the national position.

However, as it turned out Hertz bid an exaggerated $8 million for the 5 year contract and was by far the highest bidder. We bid $3.1 million and won the second national spot. Avis bid $3.05 million and were unsuccessful. However so confident were they with their national bid, that they devoted little time and energy toward working out an airport by airport bid and they ended up with only 11 airports. The remainder was shared by Thrifty and Letz.

Budget then had six weeks to establish a presence on 58 airports. Avis used the time to try to purchase from Thrifty, airport operating rights at Coolangatta, Perth, Hobart and Adelaide. They failed. On 1st July, 1979 Australian Airports were opened up to meaningful car rental competition for the first time.

At that stage Avis still had about 50% of the Car Rental Market, Budget 20%. Kay and Hertz, who had merged the previous year, also had 20%.

Having fought so hard to win the right to compete in the major market place of the Industry, we realised that it would take a major incentive for customers to swing from Avis to Budget. So on the 1st of July we introduced "Flat Rate" which was ultimately to revolutionise the Australian Car Rental Industry.

Within a period of seven months Budget picked up $22 million of Avis business and became market leader in February 1980 with approximately 32% of the market.

Hertz not only paid too much for operating rights but were also unsuccessful in generating any market growth and their market share continued to contract.

On the 1st July 1984 a new airport contract will come into effect and it is widely assumed there will now be four national operators represented at these Airports. This will provide further competition and will more than likely be the catalyst for a third major growth stage for the Australian car rental industry.

De-regulation has proved to be a very positive thing for all parties for it allows market forces to work unfettered by Government interference.
Public Authorities as Taxing Mechanisms

by Jacob Abrahami

State Governments are constantly searching for additional revenue sources. The Victorian Government’s new financial policies for its public authorities is garnering huge amounts of revenue for the State Government. Jacob Abrahami outlines the policy and some of its likely consequences.

Tax innovations in one State (such as the Financial Institutions Duty) can be quickly copied by other governments. There is no doubt treasuries in other states are looking closely at the Victorian experiment.

In the years 1982/83 and 1983/84 Victorian Budget papers show State Tax revenues will have sky-rocketed by over 38 percent — well above the average rate of increase of the other five States (around 22 percent).

Almost one-third of this massive increase came from payments made by public authorities to the State’s consolidated revenue. In 1983/84 these payments are expected to total $372 million compared with $115 million just two years ago. (See Table 1).

Table 2 summarises the revenue State Governments raise from imposts similar to those imposed by the Victorian Government on their public authorities. In the other States the authorities contribute between 1 percent (in Queensland) and 4.9 percent (in South Australia) of State taxes.

(The figures exclude for example rail freight charges on minerals which are essentially a fee for service. These charges are borne largely by overseas buyers of Australian minerals, and the revenues obtained contribute handsomely to State budgets in Queensland).

The higher payments by public authorities to consolidated revenue in Victoria follows the introduction of two requirements in 1982/83; the public authority dividend and the public authority contribution.

The public authority dividend reflects the requirement that selected public authorities achieve a given rate of return on assets employed in the enterprise. To achieve this return the Government has imposed an annual dividend of up to 5 percent of the State’s equity capital in the enterprise.

Initially the dividend requirements applied to the State Electricity Commission, the Gas, and Fuel

Victorian State Government tax revenues have sky-rocketed by over 38 percent in two years.

In 1981/82 State instrumentalities in Victoria contributed 5.6 percent of State tax revenue, but, following a 224 percent increase in the amount of their contribution in only two years, their share of total State taxes will rise to 12.9 percent in 1983/84.
Corporation, the Melbourne and Metropolitan Board of Works and the Port of Melbourne Authority.

In 1983/84 the Grain Elevator Board and the State Bank were added to the list of authorities required to make dividend payments.

Total “dividend” payments by authorities seem likely to continue to rise sharply. Only the Gas and Fuel Corporation and State Bank at present pay the full 5 percent rate — the other authorities are required to work towards this goal. The government also has the option of bringing other authorities under the dividend requirement.

In addition, another concept — public authorities’ contribution — requires authorities to make payments to consolidated revenue for the use of State-owned resources. In line with this requirement the Government in 1982/3 raised the Statutory Contribution rate payable by the Gas and Fuel Corporation from 15 percent to 33 percent of adjusted turnover.

**Rationale**

The Government claims that it is adopting economic and financial guidelines “necessary to ensure efficiency and effectiveness in allocation of resources”.

One requirement for the efficient allocation of resources is full cost pricing. This occurs when consumers pay sufficient to cover all costs — operating costs such as labour and fuel, as well as all capital costs, that is interest and dividend. When less than full costs are charged an overuse of resources leading to excessive investments can occur.

The desired rate of return, according to the Government’s calculation is “at least 5 percent”. The Government argues that if the public authorities are providing less than this return then the resources absorbed in providing the service are not being utilised at the most efficient level.

There are a number of difficulties with this argument.
Fallacies

Full cost pricing would in fact be only one element in a comprehensive policy to encourage efficient resource allocation. The Government appears to recognise this problem and, among other things, tighter guidelines on the financial management of public authorities have been adopted.

Public authorities, however, often operate in monopoly or quasi-monopoly markets and in addition are subject to costly public-service-type employment conditions.

A compulsory fixed dividend can lead to inflated prices and inhibit development.

Guidelines are unlikely to be as effective as market pressures (competition from other suppliers, transferable property rights and so on) in ensuring cost minimization through efficient resource allocation.

For example, there is evidence that Australian State-owned electricity suppliers are over-manned compared with...

The Victorian Government argues

"It should be noted that in many cases the imposition of such a dividend requirement should not require increased prices, charges or rates on the part of the authority":

"A central point [of the dividend policy] is that there is no reason why it should affect electricity prices":

"...(the) real decline (that) has occurred in prices of major authorities since the adoption of real rate of return policies".

Victorian Budget Papers.

However

"As a matter of record, it should be reported to share-holders that the additional revenue likely to be derived from the tariff increases is estimated to fall far short of the increased payments to Treasury, and recourse to short-term borrowing may be necessary later in the year".


"The Victorian Government's policy of levying taxation on manufacturing industry through the State Electricity Commission and Gas & Fuel Corporation charges threatens the viability of all energy-intensive activities in the State.

Government imposts on its own energy authorities as a means of increasing revenue have, in turn, increased the price of natural gas supplied to Point Henry by more than 60% since July 1, 1982".

John L. Diederich, Managing Director, Alcoa of Australia Ltd.

"Of particular concern is the way in which some States are charging Statutory Authorities a "dividend"....If a public authority must find an additional $30 million, it must then increase its charges....

It is a bit of nifty financing which adds up to taxation by stealth".

privately owned Japanese and German electricity companies. (See P. Hartley, *Cheap Resources into Expensive Energy*. IPA Review, Summer 1984). In such a situation where costs are greater than in a competitive market environment, adding additional costs such as a compulsory dividend, which can often be passed onto the consumer, will not necessarily improve efficiency.

Indeed, compared with the free market model a compulsory fixed dividend can lead to inflated prices and inhibit development.

A compulsory levy or “dividend” on a public authority is quite different from a dividend earned in a competitive market. The dividend in the private sector is a residual — after payment to all other inputs. It provides some indication as to how efficient a business has been in such areas as cost minimization, product and service innovation and marketing strategies compared with its competitors.

Private sector dividends can vary from year to year depending on the market environment. The legislation allows for variation in the rate of dividend up to 5 percent. But, given the importance of the dividends in the total revenue, the State Government could not afford to forgo its “dividends” even in time of economic difficulties.

Another factor which clearly distinguishes the private company from the public authority is the absence of the threat of a takeover. The management of a private company which does not provide an adequate return is liable to be replaced by those who can more effectively employ the company’s assets. The absence of the threat of a takeover, together with the monopoly power of the public authorities, renders the rate of return on equity an irrelevant factor in promoting economic efficiency.

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**The revenues obtained from the public authorities are not being used to reduce distorting taxes.**

The Victorian Government’s policy also has broader implications for resource allocation. The revenue obtained from the new policies is not being used to reduce other distorting taxes, such as payroll taxes. Instead it is being used to expand the size of the public sector.

**Pricing**

The Victorian Government is running the risk that its financial policies on public authorities, particularly in relation to energy suppliers, will add substantially to price pressures with adverse consequences on industry and individuals.

Figures in the last budget papers suggest that in the last two years increases in electricity and gas charges to households have not fallen below the rate of inflation. Charges to industrial and commercial users have risen in real terms, in some cases very substantially.

Some of the immediate price effects of the new financial policies can be offset by greater borrowings. The dividend policy reduces available funds for investment, unless compensated for by price increases. Increased borrowings can moderate the price effects for a time, but this can only be temporary because ultimately the cost of servicing the debt and the repayment of the loans will have to be reflected in price increases.

The Victorian Government’s stated aim of improving resource allocation and at
The Government is leaving itself open to the charge that public authorities are being exploited for their revenue raising potential to finance the rapid growth of Government spending. At the same time ensuring greater accountability of public authorities is not in dispute. However, the method of implementing this policy leaves the Government open to the charge that the authorities are being exploited for their revenue raising potential to finance the rapid expansion of government spending in Victoria.

Other countries are recognising that a greater role for market forces is necessary to ensure public authorities operate more efficiently and respond more readily to consumer needs. A comprehensive policy to improve resource allocation and efficiency would start by looking closely at the justification for monopoly powers (where they exist) for public authorities and the need for their ownership to remain in the public sector.

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Privatization: the UK Experience

by Dr. W. S. Siebert*

Of the traditionally capitalist countries, the United Kingdom has gone furthest down the road to collectivism. The British welfare state led the way for the rest of Europe, British unions are among the most powerful, and as recently as 1977 the movement towards state control was strong enough to transfer two more major industries, shipbuilding and aircraft building, to government ownership. This background makes it the more surprising that it is in Britain that the first sustained attempt to reduce state control of the economy is being made.

The British privatization experience has lessons for all those who seek to promote competition and limit the growth of state control of the economic system.

It is probable that the main factors making the electorate's attitude towards de-nationalizing industries more favourable are the large losses suffered by these industries, coupled with the fact that they have not increased employment. Public ownership, having begun earlier, had come by the late seventies to extend further in Britain than anywhere else in Europe.¹

The U.K. nationalized industries appear to be more inefficient than elsewhere in Europe.

Perhaps because the policy of subsidisation had gone on for longer the UK nationalized industries appear to be more inefficient than elsewhere in Europe. Thus, the comprehensive study by Richard Pryke provides evidence of lower labour productivity in Britain than Europe in electricity, coal, rail, telephones, posts and steel.²

Certainly Pryke's book documents many painful cases of public sector mismanagement. For example, the Union of Postal Workers has been allowed to impose a ban on the delivery of direct mail advertising because this would 'demean' postmen (p. 151).

For an example of waste, there is the 'cathedral-like structure' (p. 187) which British Steel decided to build to house a rod mill. This caused the cost of the mill to be 40% higher than a similar plant built by a private firm (GKN). British Steel's losses in 1982/83 were about £800 million — yet over the period since it was nationalized its employment has fallen by nearly 40% (production workers, not

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¹I am grateful to S. C. Littlechild for comments but retain responsibility for any remaining errors.

²Monsen and Walters provide data on 11 industries (posts, telecommunications, electricity, gas, oil production, coal, rail, air, motor industry, steel, shipbuilding) in 18 countries and show this statement to be true as of 1978 (Nationalized Companies: A Threat to American Business, New York: McGraw Hill, 1983, pp. 18-19). France has since probably overtaken Britain.

³Pryke gives figures on the high proportion of salaried staff in BS compared to other countries (op. cit., p. 201).
salaried staff, have borne the brunt of this decline naturally"). The major part of this decline is explained by a fall in British Steel's market share (Pryke, p. 195), not a decline in world trade in steel as proponents of public ownership often allege. Therefore, the inefficiencies attending open-end subsidisation might be becoming more apparent to the voter.

**Trade union power**

There is also the fact that the trade union programme seems to be weaker than in the past. This can be attributed to higher unemployment, and the unpopularity of the closed shop (which seems to have doubled in coverage over the seventies due to pro-closed shop legislation). The trade union programme is also simply more nationalization, this time of the banks, so as to 'provide direction of investment'. So thoroughgoing is the planning put forward in the 1983 Labour Manifesto (for example, the 5 Year National Plan, and the 'tripartite National Planning Council') that the electorate must indeed have thought that the brink had been reached.

**British opinion may have been influenced by the good de-regulation example being set in the U.S.**

A further factor, which is irrelevant to the principle of free enterprise, but might in fact be quite important as a motive for the Government, is that privatization brings in revenue. This was certainly important initially when a share in British Petroleum was sold off in late 1979. Asset sales financed government expenditure (which is still as high as ever).

Today however the revenue raising aspect could be more of an obstacle, because there is some doubt as to whether the large sums required can be raised (see below). Finally, the US setting a good de-regulation example might have influenced British opinion. Nevertheless the debate remains finely balanced.

**The programme**

The table (page 27) gives the list of nationalized industries as they were in 1979, the year when the list was longest, together with the position now and as projected. It can be seen that though not much privatization has occurred as yet, a considerable amount is planned. To date enterprises employing only about 120,000 have been transferred to the private sector, compared with total nationalized industries employment of over 1½ million (and total central and local government employment of about 7 million — one third of the labour force). There has been much debate but little action as yet, partly because so many objections have been raised (see next section) but the Table demonstrates that if the plans put forward are allowed to proceed a conservative estimate of the industries that will remain in government hands is: posts, coal, rail, parts of steel and shipbuilding, and small parts of gas and electricity — about

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*The TUC claims that the nationalised industries are in difficulty "because of the collapse in demand, not because of a lack of efficiency on their part" (TUC Annual congress, Report, 1981, p. 243).


700,000 to 800,000 jobs. This is still a large number (in particular there is no good reason why coal which is facing rising demand — see below — should be retained), but it does mark a decisive break with the past.

The revenue from sales of companies has been running at about £0.5 billion since 1979. It is expected to increase to £2 to £3 billion over the next 3 years (until the elections in 1987). The £3 billion estimated value of sales in 1983/84 (this includes sales of council houses) comes to about 1% of GDP.

The opposition to privatization

The arguments surrounding privatization can for the sake of discussion be classified under three headings: efficiency issues, unemployment issues and practical details (e.g. how should the transfer be made — should shares even be given away, as suggested by Samuel Brittan of the Financial Times, November 17, 1983). We will concentrate on the first two headings.

Efficiency issues: We expect a private firm to have lower unit costs and therefore prices than a similar public firm because private owners have a stake in the firm, and they have chosen to run the firm because it suits their talents. A civil servant is not risking his own capital, need not be a good manager (he may be a good civil servant, which requires different skills), and is not policed by shareholders or the threat of takeover. If a subsidy is provided for the publicly owned firm the argument is strengthened. If the privately owned firm is operating in a monopolistic environment the argument is weakened — but monopoly unsupported by government is not common.

A conservative estimate of the industries that will remain in Government hands is: posts, coal, parts of steel, shipbuilding and some parts of gas and electricity.

A private monopolist is able to charge monopoly prices, so regulation may be called for. But regulation is still better than outright public ownership because in the private regulated firm the owners still have a stake and there is a better correlation between effort and reward for managers due to the fluctuating share values of the firm.

All the above is well known, and has been well demonstrated in David Davies' classic comparison of Australia's private airline Ansett with its publicly owned counterpart Trans Australian Airlines. These airlines have the same aircraft, same routes, and have to charge the same fares. The only difference is in property rights. The private airline is significantly more efficient (lower unit costs) than the public. It is logical therefore to expect publicly owned firms to perform worse than privately owned firms, and the evidence shows that in fact they do. It is a pity that some people, even professional economists, remain to be convinced of this.

There are difficult decisions to be made about the competitive framework into which some of the privatized firms are to

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be launched. Too much should not be made of this, because for most of the industries multiple ownership and/or foreign competition is possible — steel, electricity generation, ships, cars, coal are cases in point. The Bill for the forthcoming privatization of British Telecom has been criticised for deciding to sell the company as one unit. There is to be one competitor on trunk lines (Mercury), and an Office of Telecommunications (OFTEL) to monitor prices. But it is true that the dominant position of BT as equipment buyer might lead to elimination of competition. It might well be that more competition is required than Mercury alone can provide.

The trouble is that there are a variety of pressures militating against the break-up of nationalized companies when they are transferred to the private sector. The first is the popular worship of size. The size of BT is apparently a consequence of the government’s aim that it should be the ‘flagship’ of Britain’s information technology industries — with “the size and resources needed to lead an effective attack on overseas markets” (Financial Times editorial, Jan. 18, 1984). The fact that small companies are more flexible, that when mistakes are made they are small mistakes which are easier to correct (and do not suck the state in), that unions are more easily contained in small than large companies — these lessons of the past 30 years seem not to have been learned.

The second pressure is that the producer groups in the nationalized industries themselves want to go private as a single entity. British Airways is agitating to keep its allocation of 80% of Britain’s overseas routes and bar the entry of other competitors such as British Caledonian. The chairman of British Gas (Sir Denis Rooke) has been attracting a great deal of publicity in his stand for retaining British Gas’s monopoly. The unions are even more interested in resisting break up since they would then have to organise company by company instead of having a large national membership handed to them on a plate. Unfortunately, as is bound to be the case, the producer groups have more information and more at stake than disinterested parties, so the government bows to their lobbying.

The third pressure not to break up arises from the fact that the more competition that is envisaged for a privatized firm, the lower will be its market value when sold. But the sale price should be a secondary consideration. It is not funds for government, but high productivity and low prices in industry that are the main objectives.

Unemployment issues: The strongest objections to privatization come from the unions and the Labour Party. This objection is partly ideological in the sense of a belief in collectivism per se, and it is also related to the diminution of union power that privatization will bring (union density in the public sector approaches 90% compared with 30-40% in the private sector). But the objection is also related to genuine fears of unemployment consequent upon privatization. The public share these fears: “You don’t simply bankrupt state industries employing masses of people”.

*Said by Mr. Norman Lamont, Minister of State in the Department of Trade and Industry — quoted in Fortune, Oct. 31, 1983, p. 64.*
Regulation is still better than outright public ownership, because the owners have a stake.

The following resolution made by the shipbuilding unions in connection with plans to privatize parts of shipbuilding conveys the intensity of trade union objections: the Confederation of Shipbuilding and Engineering Unions "accepts absolutely the need for the most harmonious and close working of all parties within the Industry in order to steer the Industry through the present difficult World Marketing situation, and of course to provide maximum employment for our members. We reaffirm that such relations can only be maintained on the basis of the Industry retaining its present Nationalized form, under Public Ownership. We therefore reject totally any attempt by the Government to introduce any element whatsoever of de-nationalization, whether it be Hiving-off or Sale of Shares". As a union representative says, "If the Government hive off the profitable parts of British Shipbuilders, the unprofitable parts will go to the wall unless the government is prepared to provide additional finance". This is undeniable.

The unions want cross-subsidisation (indeed this is one of the aims of nationalization — as noted by Beesley and Littlechild), but the aim of privatization is to prevent it. Looking a few years back, to the mid-seventies, it is worth noting the grounds on which unions promoted nationalization. J. Hepplewhite (Amalgamated Society of Boilermakers), said "We want more British ships to be built in British yards. The Government have a job to do to bring the shipowners around to co-operation with the publicly owned shipbuilding industry". When the industry was nationalized the unions specifically wanted 'no closures' of unprofitable yards. Thus nationalization was seen as an instrument of coercion and cross-subsidisation.

In considering the fear of unemployment, it is important to separate out those industries which face potentially rising demand from those which face falling demand. In the former, following Beesley and Littlechild (op.cit.), we could put airlines, telecoms, coal, electricity, gas, airports. These industries cover about 800,000 people (see Table). Though some of these industries are doing badly under the present mis-management, there is no reason to expect them to do so under private ownership. Therefore for firms employing about 800,000 the threat of unemployment related to privatization is not great.

Those industries which face static or falling demand are rail, posts, steel, shipbuilding and perhaps British Leyland (employing about 70,000). It is only the latter three for which some privatization is currently being considered; their current employment is about 250,000. Many of these people will lose their jobs with private (or any) ownership. Suppose, to be concrete, that 150,000 will become unemployed and have to move to new

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1 House of Commons Official Report, Standing Committee D, British Shipbuilders Bill, 1st Sitting, 30 November 1982, p. 11, statement by Mr. D. Dixon, MP for Jarrow.
2 Mr. D. Dixon, loc.cit.
3 TUC Annual Congress, Report, 1976, p. 611.
jobs in other industries. A way of compensating these workers must be found in order to stop them (and the political organisations in the towns where they live — for steel and shipbuilding are highly concentrated) leading the fight against privatization.

More attention must be paid to the legitimate fears of people who will become unemployed, even if transitionally, as a result of privatization. While 150,000 is not a small number, it is small in relation to the UK workforce (20 million). A compensation or Buy Out Plan should be devised to accompany each specific industry privatization plan. This plan would make clear to the public the limited nature of the problem, and reassure them that generous steps had been taken to deal with displaced workers.

It should be remembered that failure to plan compensation could mean that the opportunity will be lost to save the taxpayer static losses of about £2 billion a year (the total of nationalized industry losses) and dynamic losses (the poor growth, low profits and high unemployment associated with nationalized mis-management) probably much larger than this. It might be objected that no one asked the individuals in question to go into declining industries, the pay in which any way reflects the risks of redundancy. But this ignores the fact that the workers are well unionised and the unions can be expected to press for retention of workers. We have a bargaining situation in which there is scope for compensatory payments as a bargaining counter facilitating the process of change.

Conclusions

A first lesson to be learned from British and European experience is that an expansion in state control of the economy, once embarked upon, is hard to stop. As the state grows forces are set in motion which encourage further growth; there is positive feedback. This feedback takes the form of unions becoming better organised, and attitudes towards profits and the price system deteriorating.

The most important lesson to be learned from the U.K. privatization experience is to consider not only the industrial organisation side of privatization but also the industrial relations side.

A further lesson is how badly state enterprises are run. This is the logical consequence of the management incentive structure in these enterprises. A large body of evidence now supports the logic. It is this evidence which probably accounts for the shift in public opinion in favour of privatization.

In the UK the plan is eventually to transfer about one million state jobs (out of seven million) to the private sector. These plans will result in an expansion in some industries consequent on better management, and a contraction in others. In the short term about 150,000 people could lose their jobs — but a better estimate of this should be made.

The strongest opposition to privatization has been on unemployment grounds. The unions (who have other motives as well) and the public unite on this. In fact the unemployment objection can be solved by negotiating Buy Out plans. There are not many people requiring to be bought out, and the benefits to society are large. The
redundancy side of transferring enterprises to the private sector has been neglected with consequent severe political setbacks.

The most important lesson to be learned from the UK experience is to consider not only the industrial organisation side of privatization but also the industrial relations side.

### The Privatization List

<table>
<thead>
<tr>
<th>Industry List</th>
<th>Employment (000) 1982</th>
<th>Current Status and Plans**</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Aerospace</td>
<td>(70)</td>
<td>51% sold February 1981</td>
</tr>
<tr>
<td>British Airways</td>
<td>7</td>
<td>To be transferred to private sector</td>
</tr>
<tr>
<td>British Gas</td>
<td>43</td>
<td>To be transferred to private sector</td>
</tr>
<tr>
<td>British National Oil Corp.</td>
<td>(1)</td>
<td>Retain national distribution; sell oil interests (Enterprise oil-projected 1984/5) and retail outlets regional competition</td>
</tr>
<tr>
<td>British Rail</td>
<td>227</td>
<td>51% sold as Britoil Nov. 1982 (1st call); N. Sea oil licenses and 11% BP also sold.</td>
</tr>
<tr>
<td>British Shipbuilders</td>
<td>67</td>
<td>BR hotels sold Nov. 1982; Sealink ferry and Hoverspeed sale projected, also British Rail Engineering; no major plans.</td>
</tr>
<tr>
<td>British Steel</td>
<td>104</td>
<td>Naval and offshore yards to be sold; merchant yards and ship repair retained.</td>
</tr>
<tr>
<td>British Transport Docks Board</td>
<td>(7)</td>
<td>50% to be transferred?</td>
</tr>
<tr>
<td>British Waterways</td>
<td>3</td>
<td>49% of Associated British Ports sold February 1983.</td>
</tr>
<tr>
<td>Civil Aviation Authority</td>
<td>7</td>
<td>—</td>
</tr>
<tr>
<td>Central Electricity Generating Board</td>
<td>55</td>
<td>1981/82 value of capital — £33 bn; Retain national distribution; CEGB.</td>
</tr>
<tr>
<td>Electricity Council and Area Boards</td>
<td>92</td>
<td>To be split into 3-5 private companies; area boards sold as 12 private companies.</td>
</tr>
<tr>
<td>National Bus Company</td>
<td>64</td>
<td>To be transferred to private sector.</td>
</tr>
<tr>
<td>National Coal Board</td>
<td>279</td>
<td>No plans.</td>
</tr>
<tr>
<td>National Freight Corporation</td>
<td>(36)</td>
<td>100% sold in October 1981.</td>
</tr>
<tr>
<td>N. Scotland Hydroelectric</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Post Office</td>
<td>180</td>
<td>No plans.</td>
</tr>
<tr>
<td>and British Telecom</td>
<td>246</td>
<td>1981/82 value of capital — £16 bn; 51% to be sold.</td>
</tr>
<tr>
<td>Scottish Transport Group</td>
<td>11</td>
<td>—</td>
</tr>
<tr>
<td>S. Scotland Electricity Board</td>
<td>13</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.6 mill</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Other major companies:** ICL (25% sold); Ferranti (50%); Fairey (100%); British Sugar (24%); Cable and Wireless (50%); part of British Leyland (Jaguar, Land Rover, Unipart) to be sold, and perhaps all of Rolls Royce.

*excluding bracketed industries

**see text footnote (p. 22)
It seems apparent that many commentators and politicians believe that we must live with the current high levels of unemployment for the foreseeable future. Politicians no longer find it necessary to be seen as pursuing full employment policies. The public has gradually become convinced that full employment is an unrealistic objective.

Recorded rates of unemployment in Australia have been above 5 per cent since 1974. Recently they have reached 10 per cent. When hidden unemployment is considered, then the under utilization of the workforce might be close to 15 per cent.

Politicians no longer find it necessary to be seen as pursuing full employment policies.

We find our politicians and public servants devoting increasing shares of their energies to the design, promotion and implementation of schemes such as the Victorian Government’s “Employment Initiatives Programme” or the Federal Government’s “Commonwealth Employment Programme.” These schemes are capable of redistributing unemployment and, by providing jobs for particularly disadvantaged people (e.g. people who have suffered unemployment for more than six months), they spread the burden of unemployment more equitably. However, they are not capable of significantly reducing the overall level of unemployment.

I believe that high levels of unemployment are not inevitable. I can see no demographic or technological developments over the last ten years sufficiently large to explain why full employment should be feasible in 1974 but not in 1984. What I see is a decade of rapid increases in the real costs of employing labour (especially in 1973-5 and 1980-2). I also see a decade in which the slow growth of world trade and the rapid growth in the size of Australia’s working age population indicated that reductions in the real costs of employing labour were probably required for the maintenance of full employment. I believe we can once again have full employment when we are prepared to reduce the real costs of employing labour.

Some readers may wonder what happened to Keynes. Australia had continuous full employment (say less than 2 per cent unemployment) from WWII until the early seventies. This performance was a spectacular improvement on that of the 1930s when unemployment averaged well over 10 per cent. The reason for this improvement, we were taught, was that governments (following the prescriptions of Lord Keynes) learnt how to prevent unemployment by careful manipulations of aggregate demand via monetary and fiscal policy. It now seems doubtful that simple Keynesian policies were responsible for the macroeconomic
successes of the fifties and sixties. My own guess is that these successes followed from favourable wage movements.

The fifties and sixties were a period in which wage movements tended to lag slightly behind the productivity increases associated with technical progress. In other words, employers were not required to increase the pay of workers at a faster rate than workers were able to increase their outputs of goods and services. Nevertheless, I believe that demand manipulation can play an important role in restoring full employment, but only in combination with an appropriate wage policy.

We can once again have full employment.

The idea of a two-pronged attack on unemployment combining wage policy with demand manipulation has been highlighted by Dixon, Powell and Parmenter. They argue that demand stimulation can create jobs but only at the expense of the balance of trade. Their calculations show that in the absence of improvements in Australia’s competitiveness, half of any policy-induced increase in real aggregate demand would be satisfied by increases in imports and diversions of exports back onto the domestic market. Consequently they emphasize the need for reductions in costs to improve Australia’s trading position as a prerequisite for employment-creating demand stimulation.

If Australia could combine cost reductions with demand increases then the calculations by Dixon, Powell and Parmenter indicate that significant increases in employment could be achieved without inflationary pressure and without deterioration on the balance of trade. Such a two-pronged approach to our employment problems would also produce a balanced stimulation of the economy. Demand stimulation is particularly important to the non-trading part of the economy, while cost reductions are vital to the trading part.

The difficult problem is how to combine demand stimulation with cost reductions. An approach to cost reduction, which is being increasingly discussed by both employee and employer groups, is some form of wage tax bargain. The major component of costs is labour. The cost of labour is made up of take home pay, various loadings and taxes. One way of reducing labour costs would be to reduce PAYE and payroll taxes. This could allow a reduction in labour costs while maintaining the take home pay of employed workers. It would need to be accepted that the tax reductions were not designed to increase take home pay, but to reduce employment costs. It would need to be accepted that the tax reductions would add to profits. With such acceptances the tax cuts would facilitate the required two-pronged attack on unemployment. They would reduce costs directly and stimulate demand, especially business investment arising from increased profits. Further demand stimulus would be associated with the resulting employment growth.

I am sometimes asked why a demand stimulus must be accompanied by reductions in labour costs as the mechanism for maintaining trade

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balance. Would it not be easier to restrict imports through increased protection or by exchange rate devaluation? I believe that neither of these policies is effective. Increases in tariffs lead to increases in the consumer price index which feed into wages and reduce the competitiveness of the export sector. Calculations in Dixon, Powell and Parmenter suggest that improvements in the balance of trade from tariff-induced reductions in imports are outweighed by reductions in exports. Similarly, devaluations are inflationary and have no discernible long-run impact on the balance of trade.

It seems that the employed majority with the support of the Arbitration Commission and Government is unwilling to make sacrifices for the benefit of the unemployed minority.

Another question which often arises in discussions of wage tax bargains concerns the effect on the Government's budget. Calculations by Corden and Dixon\(^1\) indicate that a wage tax bargain which increased the demand for labour by 5 per cent could be introduced with only a minor deterioration in the Government's budgetary position. Much of the revenue lost through reductions in tax rates would be regained through increases in the tax base associated with increased employment and profits. Other savings would be achieved from reductions in unemployment benefits.

**Conclusion**

A sad aspect of our current economic situation is that we seem to have given up on the objective of full employment. Recent National Wage decisions have concentrated on the need for full wage indexation to maintain industrial harmony. At the same time it is widely recognized that lower real wage costs are required if we are to reduce unemployment. It seems that the employed majority, with the support of the Arbitration Commission and the Government, is unwilling to make sacrifices for the benefit of the unemployed minority. However, if we were to implement the type of wage tax bargain that I have outlined, substantial benefits would accrue to those currently unemployed without requiring sacrifices from those currently employed.

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Why Governments do not plan Effectively
by Professor David Kemp

Government regulation is frequently justified on the ground that “planning” is needed. Governments over the years have attempted to “plan” the development of the motor vehicle industry, or “plan” the development of alternative fuels, or of the resources industry more broadly. On a grander scale governments have even sought from time to time to “plan” whole societies or economies. Others, less ambitious, have been content to lay down plans to reduce inflation or unemployment.

The motivation to “plan” is to achieve greater certainty and greater predictability - at least in relation to matters that are important to the planners. Plans may be highly elaborate, systematic and detailed, or closer to broad strategies. Whatever its character planning implies a longer-time perspective on our decisions. It appeals to the rational person in all of us: who does not believe that we should attempt to foresee problems we might face and take action to avoid or solve them? We all attempt to plan to a degree in our own lives. We would be less than responsible if we did not attempt to plan.

Failures in Government Planning

Yet if planning in the abstract is often desirable, the record is plain that governments - ambitious or modest - find it immensely difficult to plan effectively. Indeed the big governments we now possess often become major sources of uncertainty and confusion in the minds of leaders and decision-makers in other institutions, let alone in the minds of individual people as voters, taxpayers and consumers. Public servants wonder what changes new decisions will require to existing procedures; businesses and the professions wonder what new taxes and regulations will be imposed on them, and whether existing commitments will survive; trade unions have sought to bind the government with an Accord whose future is continually in question; the wage fixation system is facing one of the major challenges in its history.

Governments often become major sources of uncertainty and confusion in the minds of leaders and decision makers in other major institutions.

Governments have failed to plan effectively to reduce unemployment or inflation or to greatly stimulate innovation, productivity and efficiency. Even in areas under almost complete government control, such as power, tertiary education or public transport the failure of governments to provide certainty and confidence is legend.

The claim by governments that they can “plan” appeals to a desire for certainty and predictability at the centre of our society, but the claim sounds hollow indeed against such realities as teacher surpluses (or shortages), or the incessant delays to large development projects, let alone such long term “failures” as the mess of the tax system or the uncertainties of industry protection policy.
Of course we would all like to plan to restore economic growth and full employment and zero inflation: but how best to do it? As an astute American commentator on politics, Aaron Wildavsky, has said, planning is not the answer. How to plan is the problem. Establishing an advisory unit called an Economic Planning Advisory Council speaks well of the aspirations behind it, but will still leave us far from the goal of planning effectively to produce greater prosperity, freedom and human fulfillment.

In practice there are huge gaps in our knowledge — even in the knowledge of governments — and some of these gaps will never be filled.

Why the vast gulf between aspiration and reality? The reason is in fact not complicated at all. As Wildavsky has said on another occasion, to plan effectively planners need both relevant knowledge and sufficient power, and governments as planners have neither.

Vital knowledge is lacking

The greater the scope of the activities to be planned, the more knowledge is relevant to the success of policy. In practice there are huge gaps in our knowledge — even in the knowledge of governments — and some of these gaps will never be filled. The most obvious is our ignorance of the future. Our capacity to “project” and “forecast” is limited, but more important we cannot foresee the technical innovations, the advances in scientific knowledge, or in social philosophies, let alone changes in the international economic system or in our own, that have demonstrated the capacity to transform our society within a very few years. But there are two other major gaps in our knowledge, quite apart from our ignorance of the future, that prevent the “long-term planning” that in our daydreams we might like to have.

To plan effectively the planner needs to know the effect of his actions: what causes what. Our ignorance of how societies work is still very great, and much of the content of political debate is over just this question: what will the effects of such and such a programme be. Even where important lessons have been learnt, as in economics, there is often a reluctance to accept what is known, because the ideology of planners inclines them to want to believe that the world is very different from the way it really is.

Indeed governments with immense power to plan, as in the socialist countries, have failed to plan effectively to achieve either economic prosperity or even a reasonable certainty of their own survival. As events in Poland show, the power of these enormously centralised governments is not total, and combined with their ignorance of how to achieve what they want, falls far short of what is necessary to plan the futures they conjure up in moments of ideological fervour.

There is a third kind of knowledge which planners lack and which is arguably the most important of all, although it is perhaps the most difficult to recognise. This is the knowledge that individual people have about their own values and the knowledge which arises out of their own experience during their lives.

This unique experience and these personal values are the basis on which each person decides how his or her priorities are ordered, and these orderings
are often established only at the point of actual decision. This knowledge can be expressed and utilised through market processes, as individual consumers and producers deal with each other or make their decisions. It is not available to central authorities, nor ever can be, and its inaccessibility to those at the centre is a fundamental incompetence of authorities to plan effectively to meet the needs of individual people. It lies at the heart of the failure of socialist governments. It is one of the main reasons why attempts of even democratic governments to regulate have consequences which are unforeseen and lead to inefficiency in the use of resources. Only in wartime will most people submerge their other values in the interests of the overriding value of national survival.

Even when people know far enough ahead what they want to encourage attempts to plan, central authorities find it exceptionally difficult to obtain and process this information: there is often too much to be handled by a few decision-makers. This is the "information bottleneck" which is ultimately an insuperable problem for those in authority, though they may try to relieve it by a variety of strategems: such as summarising, delegation, or processing it in various ways (at the cost of losses of information) before it is brought forward for decision.

It is worth making the point that these obstacles to effective planning are not peculiar to governments. All authorities face them to some degree. Big companies face great problems of efficient central planning; big unions often have to operate with little precise knowledge of the views of their members. Governments are different in that they face problems arising from the greater scale of their decisions, and not infrequently the overblown character of their aspirations to plan.

These then are the major gaps in the knowledge of governments which inhibit their capacity to plan effectively to achieve the better society they are constantly promising us. But not only do governments lack the knowledge they need, they also lack the power.

**Essential Power is Lacking**

It is lack of power — often related to lack of knowledge — which explains why governments are so notoriously ineffective in planning even those activities which are directly under their authority, such as their own public services and government controlled activities such as education, transport, taxation, social security programs, or aspects of health.

**Governments are notoriously ineffective in planning even those activities which are directly under their own authority, such as their own public services.**

Governments must not only rely on institutionally biased information from each of the relevant institutions as a basis for decisions. They also need the support of people in these institutions, and of the clients and members of the public who may be directly affected by, and benefit from, the activities of their institutions. Teachers may resist the closure of a school, unions or local communities may prevent nationalisation of the rail network, doctors may oppose changes to health arrangements and so on.
In a democratic society every person and group which believes that it may be affected by a decision of government has a right to express itself and to seek to persuade the government to its view. And beyond that, governments themselves change, and the commitments and perspectives of the incoming government may differ in many ways from those of the outgoing government. To expect policy coherence over the decisions of 'big' government, let alone persistence in decisions over time, is to live in cloud cuckoo-land.

**Plans and Democracy**

Planners in government are for this reason often antagonistic to democracy, and attempt to take decisions out of the hands of elected governments and place them in non-elected semi-permanent planning agencies. Yet there are at least two fundamental weaknesses in this approach. One we have seen in the planning failure of even those governments which are non-elected and which are semi-permanent, the governments of the socialist states. These governments cannot avoid the fundamental incompetences of centralised authority which arise from their inevitable ignorance of matters which are essential to the efficient and effective working of a social and economic order, and the problem of effectively processing that information which is available at the centre.

The other weakness is the failure to appreciate the essential virtues of the disorderly democratic process. If individuals and groups are prevented from expressing themselves through democratic procedures, their discontents will not vanish — they will simply seek other avenues for expression, perhaps in riots, revolutions or military coups — as the socialist countries are finding. And the reduced responsiveness of governments will ensure that grievances multiply even more rapidly. Democracy — as Churchill said — is the worst form of government, except for all the others.

In reality, handing any field of activity over to government to "plan" is virtually to guarantee that there will be continuing uncertainty, unpredictability, and agitation over its future. The more secure and confident institutions are those not dependent on government. It is in relation to government transport, government education, government-run hospitals, the government-run power industry, that the deepest dissatisfaction are felt. Of the three great powerful sets of institutions in Australia: government, unions and business, it is private enterprise which stands highest in public esteem: the only one of the three subject to daily influence by individuals through the marketplace.

**Of the three great powerful sets of institutions in society: government, unions and business, it is private enterprise which stands highest in public esteem.**

Can we then do better for ourselves? Yes, if we abandon the chimera that governments can "plan" effectively all the vast range of activities they are dragging into their purview, and recognise the reality, which should be all too obvious, that governments cannot do many things, and that far from being natural long-term planners of our lives, democratic governments are uniquely short-term in their perspectives.
Planning within limits

The cliche that "a week is a long time in politics" expresses a deeper truth about government than many realise — one great strength of democratic politics is its capacity to deal with those tensions and pressures and conflicts which arise in the short term in any free society. If governments neglect these for the long term they will find that they become less effective and their societies less satisfactory for people to live in. The task of leadership is to find among the short term solutions those which offer the best hope of acceptable longer term conditions.

Each of us of course has a capacity to plan within limits — even governments. Wise government will make use of the knowledge and planning capacities of businessmen, volunteers, individuals and provide ways for people to reconcile and harmonise their different priorities. It will not overburden itself by trying to take away the capacity to plan from individuals and groups and locate this authority in government itself. For when this happens, we experience not a greater confidence and certainty that we know what policy is — on the contrary we experience a disruptive and ineffectual government which breeds uncertainty and by undermining predictability or increasing the difficulty of independent action, stultifies decision-making in other social and economic institutions.

Governments should certainly persist in their attempts at planning of a particular kind: they should plan to provide the framework of laws and policies within which their citizens — individuals, consumers and producers — can use their experience, and whatever foresight they may possess, to attempt to realise those things that are important to them.

A government which lets its citizens do their own planning within a framework of certain rules will find that it presides over a more governable society.

Governments should allow the vast resources of knowledge in their societies to be utilised by their citizens in effective decisions, and create the conditions in which their citizens can plan as best they can. Governments cannot do that planning for them, and the attempt to do so simply ends up creating uncertainties and insecurities. And governments only make life more difficult for themselves by attempting to plan to achieve objectives when the requisite knowledge and power for success is unavailable.

A government with the wisdom to let its citizens do their own planning within a framework of certain and just rules will find that it presides over a more satisfied and more governable society — if one with a tendency to constant change and innovation. It is also likely to have citizens who are prosperous and competent.
Tax Reform
by John Harrowell

In late February the IPA (NSW) published an “Outline of an Alternative and Simplified Tax System for Australia”*. In this article the author of the paper, Mr. John Harrowell, discusses his approach to tax reform; some of the problems and difficulties associated with tackling the task. He stresses the need for wide public debate of the issues.

The basis for proposing genuine reform to our taxation system must be to look at the present Act and concentrate on those areas where it has failed. My recent experience as a Member of the Taxation Board of Review perhaps enables me to do this better than many.

Every proposed change needs to be justified by being seen to correct a part of the present law that is creating difficulty and, possibly, confusion.

It would be a pointless exercise to scrap the present Act and start afresh without regard to the lessons we have learnt in operating it. Nor do we want to introduce change ‘for change’s sake’, and we must try to eliminate (or at least, minimise) our own personal views and ‘hobby horses’.

With these principles in mind, a close study of the problem areas should lead logically to what the basic parameters of an alternative tax system ought to be. Every proposed change needs to be justified by being seen to correct a part of the present law that is creating difficulty and, possibly, confusion.

In the paper I have done my best to approach the difficult task of reform in this manner. The logical outcome of this process is, in my view, a system of three taxes, in which no one of them is dominant, as is the case with Income Tax in the present system.

Thus, in my proposals, income tax is ‘downgraded’, with the result that the take-home pay for all taxpayers will be greater than it now is.

The balance of revenue required to cover the cost of government would be met by a ‘purchase’ (or transactions) tax, and a capital gains tax.

In the paper I have not put forward any recommendation of the form a ‘purchase’ tax should take (VAT, Sales Tax, etc.) but there is now a wealth of overseas experience of these taxes on which to base the decision. It is recommended however, that such a tax be a comprehensive one in which only some of the essentials of day-to-day living are exempt.

A capital gains tax will not be a big revenue-raiser but its presence in the tripod of taxes is essential so as to close off an obvious area of tax avoidance.

However, I do stress that I would not be recommending the introduction of a broad-based ‘purchase’ tax or a capital gains tax whilst the present income tax law remains in force.

*Copies of the Paper are available, free-of-charge, from IPA (NSW).
Contributing to the present Act’s complexity are the many functions it is called upon to perform. Thus, in order to achieve a much simplified system, it is necessary to limit the function of tax acts to that of raising the required level of revenue.

All incentives and forms of assistance, both to individuals and those engaged in business, be by way of direct payments and shown on the expenditure side of the budget.

The paper therefore proposes that all incentives and forms of assistance, both to individuals and those engaged in business, be by way of direct payments and shown on the expenditure side of the budget for all to see.

The proposals are not aimed principally at our politicians, but to the community at large. The NSW IPA President, Sir Eric McClintock, comments in his Foreword to the paper that its publication is designed to stimulate public interest and discussion of this most critical issue and he hopes that it will lead to “a universal determination to challenge the pervading mood that to devise a taxation system which is understandable, fair and equitable to all Australians is beyond the wit of man”.

I will not attempt to summarise the proposals any further in this short article, because it is essential that it be read in toto. It is a plan for a comprehensive and integrated tax system, so individual recommendations should not be commented on in isolation, and without reference to inter-related ones.

I do not expect readers to agree with all aspects of the paper but I do ask that criticism of any one part does not become overall condemnation of the proposals. They are only a starting point for discussion, and genuine reform can only come eventually through much hard work, discussion and debate on the part of those who have the will to achieve that end.

A complex law (such as now exists) cannot be replaced by a simple law (such as I am proposing) without upsetting those with sectional and particular interests, so I am sure some of the recommendations will attract vigorous opposition.

I do hope that those who may oppose any part of what I have written will at least first study closely the overall thrust of the full proposal.

The present system cannot be criticised effectively by the layman because he knows he does not really understand it. But a new system that is simple, and can be understood, will attract ready criticism.

There are also influential groups within the community that have a vested interest in the complexities of the present Act: for tax ‘experts’ interpreting and advising on the present law is a livelihood. Change to a simpler system might well jeopardize this situation.

However, on reflection, we must all surely agree that it is of no benefit to the country and to the taxpaying community that so many highly intelligent and expert skills are devoted almost exclusively to doing battle with the Tax Office.

The introduction of a simplified tax system will, I suggest, not put these ‘experts’ out of work, but will enable
It is of no benefit to the country and to the taxpaying community that so many highly intelligent and expert skills are devoted almost exclusively to doing battle with the Tax Office.

them more fully to advise their clients on how to maximise the efficiency and productivity of the business, without their advice being distorted by tax considerations.

The time for facing up to the task of tax reform is long overdue. Going on as we are may well see the introduction of a broad-based ‘purchase’ tax, a capital gains tax, and even (worst of all) a wealth tax, on top of the present Income Tax structure. In my view a wealth tax is the last resort of a government when the tax system has failed.

In other words, if we do nothing we will only get what we deserve.

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Government and Small Business
...The right hand gives, but the left hand takes.
by Professor Geoffrey Meredith

Governments all around Australia have ‘discovered’ small business but their programmes of assistance are often outweighed by the adverse effects of other government policies, particularly taxes and charges.

Based on commitments made by politicians in the early 1980s it looks as if this decade is shaping up to be an era for the small business owner. Politicians and their advisers appear to have “found” those owners of Australian controlled enterprises — the so-called small business community.

Current Governments in Victoria, South Australia and Western Australia have come to power on a strong small business ticket.

The late 1960s saw an initial national study of small business. Cabinet received the Wiltshire Report in 1970, but it took a change in Government in 1972 for any action to flow — the establishment of the National Small Business Bureau in 1973. Initially starved for resources, a further change in Government (at the national level) was necessary before policy and action shifted from the Bureau at Federal to State levels. The “right hand” of Government had begun the process of providing resources for small business. Each State now has a small business agency or corporation or the equivalent. In one way or another they —

- provide information for owners.
- produce publications of interest to small business.
- fund counselling services.
- co-ordinate (and at times supply) training.
- support loan guarantees

**Right hands**

Commitments by political parties suggest that the “right hands” will increase the flow of resources to the small business sector. Current State Governments in Victoria, South Australia and Western Australia came to power on a strong small business “ticket”. As a follow-up to elections, South Australia has completed an inquiry into small business; and Western Australia plans to expand the operations of its Small Business Advisory Service. However, commitments do not end there. The Queensland National Party, following its re-election as Government in October, has appointed a Minister for Industry, Small Business and Technology, with senior Cabinet ranking.

From its election commitments, Federal Government appears geared to upgrade the Department of Industry and Commerce Small Business Branch to a Division with several branches.

Few commentators would question the need for a voice for small business and the need for changes in Government attitudes to the sector; however, there must be dangers that enthusiasm for election
success will encourage Governments to adopt policies not in the long-run interests of small business.

**Left hands**

Governments are seen often as helping small business with "the right hand" and hindering with "the left". Government announces some new assistance programmes for small business but at the same time introduces new revenue-raising measures which have major impacts on small business performance.

**New revenue-raising measures can have major impacts on small business.**

One example is the much criticised tax withheld under 'Prescribed Payment System'. Claims and counter-claims have been made recently on this tax. Government claims it is fair and is geared to catch the tax-avoiding "rich" taxpayer. Small business claims the procedure will adversely affect business cash flow and profits while increasing bureaucratic record-keeping. Further, it is claimed many large businesses will be exempt from the legislation — the real burden will fall on small business.

This withholding tax example is only one of many complaints by the small business sector about government actions which are having a significant impact on the sector, while apparently not adversely affecting large enterprises.

Division 7 taxation; import and export regulations; loan availability; increases in local government charges; increases in business registration charges; public authority charge increases; demands for information by government departments — could all be cited as examples where legislation has been approved without any apparent attempt to assess the impact of procedures on the small business sector.

Three classic examples of Government action creating cost burdens for small business are the:

- growth in real/effective cost of labour;
- growing impact of Government indirect taxes and charges;
- paper burden on small business meeting bureaucratic information needs of Government.

Owners as employers are concerned about real cost per effective man-hour. The impact of Government action has been twofold — to increase labour cost, and reduce effective labour time. Overall impact on effective labour cost per hour has been disastrous.

Consider a skilled worker paid a gross salary of $20,000 per annum with expectations of working 40 hours per week. The full cost to the employer is likely to increase by at least 22.5% — to $24,500 per annum. The additional $4,500 could flow from workers' compensation insurance, payroll tax, superannuation (soon to be compulsory, apparently), cost of replacing employee on a short-term basis during generous sick leave, recreation leave, long-service leave and annual statutory holidays. Thus the $9.62 cost per hour (2080 hours at a gross salary of $20,000) climbs to $11.77 per hour (for the total annual cost of $24,500).

However, this is only half the story. While Government action has led to increased total costs, Government has also supported decreased working hours (and has been a pace-setter in this regard) — 40 hours may become 37 hours per week. These 37 hours are only effective...
for 42 weeks — deduct from 52 weeks 4 weeks for recreation leave, 2 weeks for statutory holidays, 2 weeks for training and 2 weeks for sick/long-service leave. Thus the "ideal" of 2080 hours reduces to 1554 hours per annum (42 x 37) and the effective cost per hour climbs to $15.76 — a massive 64% above the "basic" $9.62.

All three levels of Government — Federal, State and Local — are guilty of imposing even higher taxes and charges.

To add insult to injury, while employees (with Government support) are being granted increased wages and fringe benefits and reduced work hours, small business owners see themselves working longer hours for declining returns.

Government taxes and charges present a similar picture. Small business owners are justified in complaining on a number of issues:

- Government charges and taxes in general move in one direction — up! The private sector can be forgiven for wondering why increased efficiency and/or economies of scale don't lead to occasional decreases in taxes and charges.

- All 3 levels of Government — Federal, State and Local — are guilty of imposing ever higher taxes and charges on the public.

- While the private sector is encouraged (required?) to demonstrate improved efficiency and an ability to control costs, there is no demonstrated evidence that the majority of Government Departments/-

Authorities attempt to apply concepts of managerial (cost) reporting and accountability. How often is the public informed of the cost of road construction (by Government) per kilometre? Cost of information services? Cost of small business advisory activities? Cost of airport maintenance? Cost of Government printing offices? How often are these (and a multitude of similar services undertaken by Government) costs compared with the cost of similar services offered by the private sector?

Finally, the paper burden problems continue as small business owners are faced with growing demands from Government for more facts and figures on performance. This paper burden was recognised as "a burden" in 1978 and the Federal Government of the day commissioned the Australian Bureau of Statistics to measure the "burden". A Report released in March, 1980, revealed some startling figures for the 1978 calendar year:

- Businesses in Australia complete some 10 million Commonwealth Government forms each year.

- The annual cost to the small business sector for Commonwealth Government paper work was some $173 million.

- For small businesses employing between 11 and 20 the average cost of the paper burden per business varied between industry sectors:— Manufacturing $1868 per business Wholesale trade $3064 per business Retail trade $1294 per business.

It is worth noting that the ABS data collection procedures were subjected to severe time and budgetary constraints. "Cost of paper burden" was as perceived
by the enterprise owner and was meant to cover:
- fees paid to any outside agents,
- cost of additional bookwork,
- the direct cost of completing Government forms.

In the words of the ABS publication (December 21, 1979): “Analysis of these problems indicates that the estimates may be understated”.

Legislation which reduces incentives to risk-taking is anti small business.

The result: many successful small business owners are deciding that “it is all too hard” and are selling out or closing down. While this may be dismissed as “private enterprise in action”, this trend should be considered seriously by Government. Small business is private enterprise. Small business is competition. If Government wants an economic environment with few operators, then an appropriate strategy would be to eliminate small business. However, if Government wants an environment representing competition and all it implies, policies must be developed to encourage new enterprise establishment, and growth of successful enterprises.

Legislation which reduces incentives to risk-taking is anti small business. Governments cannot give (or appear to give) with the right hand, and keep taking with the left. Problems are compounded when Governments are seen to use “the right hand” only on or before election time and cause havoc with several “left hands” between elections.

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Ideas and Insights

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

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Labour Costs and Employment

A sustained increase in employment growth requires higher levels of investment, according to the OECD Secretary-General Emile van Lennep. Labour costs, however, remain too high in a number of countries to sustain adequate employment and investment.

"Some encouraging developments have taken place as of late. In a number of OECD countries, social partners, sometimes in concert with governments, have succeeded in moderating the growth of real wages relative to productivity trends.

Various changes in collective bargaining processes have also contributed to improved cost-price relationships: for example, greater decentralisation of wage negotiations in some countries; a general weakening of wage indexation processes; new approaches to salary determination in the public sector; and increased flexibility in relating wage settlements to particular economic circumstances in individual enterprises."

Mr. Emile van Lennep, OECD Secretary-General, OECD Observer, November 1983.

In contrast to the encouraging trends overseas, wage-setting arrangements in Australia have moved towards greater centralisation and a strengthening of wage indexation processes.

Business and Government

Industry should not rely on government support according to Sir James Balderstone, Chairman-elect of Australia's largest company, BHP, and President of the Institute of Public Affairs.

"I have no time for the philosophy that we can permanently solve our industrial problems by government hand-outs, intervention or ownership. We can and must all do more to help ourselves.

I am quite certain in my own mind that reliance on Government support is in the longer term unhealthy and to be avoided."

Sir James Balderstone, Chairman-elect of BHP, Speech to Australian Academy of Technological Sciences, March 1984.

State Government Charges

The rapid increase in many State Government taxes and charges is of growing concern to industry.

"The costs of State Government services and taxes, of Workers' Compensation Insurance are increasing at an alarming rate, and there seems, as yet, to be little recognition by State Governments that their mounting cost structures are progressively reducing the
capacity of industry to maintain, let alone expand, employment prospects.

In order to generate wealth, both as a company and as a nation, we must recover and maintain our international competitiveness by tightly controlling our cost structure.”

Mr. Milton Bridgland, Chairman of ICI Australia, Annual Meeting, February 1984.

New Taxes

Most Governments around Australia do not have a programme to actually cut down the overall burden of tax. On the contrary, there is a constant search for new sources of revenue.

“While tax payments are an important and necessary contribution by business enterprises to the community, it is not in the interests of the community to increase taxation to the level where returns to investors become inadequate and economic growth suffers. Clearly, the returns of shareholders in Alcoa of Australia have not been adequate.

I believe that the same can be said of much of Australia’s mineral industry. It is surprising that against this factual background much of the intellectual resources of governments appear to be devoted to finding ways of imposing new taxes and charges on the industry.”


The Cost of Regulation

It is extremely difficult to assess the cost to the community of the burden of much government legislation.

“The tangible evidence within corporations is the growth of corporate legal departments and the inordinate amount of time managers and our lawyers spend ensuring absolute compliance with so many complex and, at times, conflicting laws. That cost of compliance flows through to consumers.

Less tangible is the deflection of intelligent minds from productive work to sterile, unproductive tasks — not to mention lost business opportunities resulting from this preoccupation. Those lost opportunities lead to lost wealth and jobs — although some cynics might say that these are offset by jobs for lawyers and growth in the public sector.”

Mr. Kevan Gosper, Chairman and Chief Executive Officer, Shell, Address to Corporate Lawyers’ Association, April 1984

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SPECIAL MEDIA SECTION:
Threats to a Politically Independent Media
by Ken Baker.

The IPA has published a number of articles on the media over the last year. In this issue contributions by two noted journalists, Peter Samuel and Michelle Grattan, are published. This article draws together some of the major criticisms of the media which have emerged.

The modern mass media should be bulwarks of democracy: independent, critical, investigative, defenders of people's rights and the public interest. The media claim to be the public watchdogs demanding, as a result, the right to inquire into the workings of other major institutions in our society and into the actions of the individuals who control them.

Given the extension of the powers of the State in modern society, the importance of the media in performing their role as public watchdogs in matters of government is particularly pertinent.

The essential conditions necessary to the media's democratic role are by no means secure in Australia today.

The media perform a key role in the functioning of a democracy by keeping people informed about the workings of governments. They contribute to the maintenance of an open society by facilitating the free exchange and airing of a diversity of viewpoints. Yet the essential conditions necessary to the media's democratic role are by no means secure in Australia today.

One of the key defences of a free press lies in the existence of diversity of comment and perspective. Out of this diversity it is assumed that a clearer view of truth will emerge.

Diversity in the media can be eroded by monopoly, by undue dependence on government, by biases inherent in the institutional interests of large media organisations and by internal pressures for ideological conformity.

It is clear from the material we publish below that these are not just theoretical dangers. They are aspects of a mounting threat to a free and politically independent press in Australia.

Pack journalism

Rather than diversity, academic research and comments by journalists themselves suggest that there is today a tendency to a herd mentality among political journalists, a conformity of views which can have detrimental effects on reporting.

This mentality arises partly from the leadership of the strongest personalities among the journalists, partly from the emergence of an ideology in the media which elevates criticism to an end in itself at the expense of an ideal of balanced evaluation, partly from the physical
Press relations with prime ministers

"It was the case that some reporters, especially radio reporters, had developed strong personal attachments to Hawke and privately hoped he would win."


"The emotional temperature between Hawke and Fraser media contingents ... was vastly different.

Let me explain by example. Fraser's "money under the bed" remarks were fed to Hawke by the media for comment the way lunch is fed to the performing dolphins in a marineland park, but Hawke never faced sustained examination over his economic policies: a promised briefing on prices-and-incomes policy never occurred, indeed was never demanded by the press gallery".


"If Malcolm Fraser had come to China and announced he had a plan which could double the capacity of the Australian industry to produce raw and semi-processed steel, he would have been reported, with universal cynicism, as the seller of snake oil".


"Fraser's relationship with the press from the beginning of his rise to the position of Prime Minister has been hostile, largely because of the way the journalists had seen the rise being manipulated. They also strongly objected to his press avoidance tactics. Fraser's lack of rapport with the press contrasted strongly with Whitlam's relationship with the press."

Patricia Edgar, The Politics of the Press, 1979, p. 175

"...well, he (Fraser) knew that the journalists in the main had nothing but contempt for him as a politician, as a bloke who had sanctioned, indeed gone along with what Kerr had done. I think you know, that he sensed that most of the journalists there really weren't sympathetic at all even though they may have been trying to do a fair and honest job, but they were in no way sympathetic to Malcolm."

Journalist quoted in P. Edgar, p. 176.

"I don't doubt the allegation in The Australian that most of the Canberra Press gallery wanted Mr. Fraser to go, but I think that professionalism generally got the better of them in their work. The gallery's shameless partisanship of 1972 did teach some lessons".


"Mr. Duffy (Minister for Communications) said that "98 per cent" of the media were on side with the Government"

Report in The Age, April 4, 1984, p. 1

"The startling fact is that this Government is less tolerant of criticism than the last; it expects less criticism and is not used to it."

Michelle Grattan, The Age, April 7, p. 10.
environment of political reporting which throws journalists together as a group on many occasions (including in the Press Gallery itself). It may even arise from a bias in the academic studies leading to journalism. (See "The Politics of Media Studies", IPA Review, Summer, 1984). All of these can have some effect on the phenomenon of the "group mind" — pack journalism.

A major survey of Washington media personnel conducted by Stephen Hess has shown that over 90 percent of working journalists rate pack journalism as a problem in their profession.* As Peter Samuel points out in this `Review' the ideology of the pack is often left-wing in its selection and analysis of issues.

While comparative research is lacking in Australia, Michelle Grattan in her article (page 55) notes the vulnerability of journalists to be absorbed in a general consensus.

And as David Bowman, former editor of the Sydney Morning Herald, commented in April last year, journalists' "sympathies are most likely to be with the Labor Party whatever their commitment to the professional middle". (Australian Society, April 1983, p. 31).

Michelle Grattan contrasts the favourable attitude of the press to the Hawke Government with the sceptical and highly critical approach which was often adopted towards its predecessor.

There are a number of reasons for this discrepancy of treatment. The Hawke Government is still enjoying a honeymoon period. The personality of the leader and his ministers may have also had some effect. But the political values of journalists would also seem to be a significant factor.

**Media management**

Pressures applied by governments are also influential in inhibiting diversity in the media. There are two main pressures; one directed at journalists and one at the managements of media organisations. The first is exemplified by the growing importance of "media units" (see box), the second by the use of economic pressures and regulatory power.

The most important consequence of the centralisation of news management in media units is the restriction of access to all but official channels of news release so that vastly complex governments speak with only a single voice.

A feature of news management by government has been the apparent unwillingness of many journalists on the 'front line' to challenge these techniques.

A further issue here is raised by the potential conflict of interests that can arise between a journalist's capacity to offer balanced and independent criticisms of political affairs and the career

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**The Cain Government’s media unit**

"The media unit represents a new style of handling the press which involves pooling journalists and not attaching individual press secretaries to ministers. It has been criticised as costly.

The system has also been criticised for removing any chance of journalists developing relations with ministers which might lead to uncovering, rather than covering up, important stories."

David Hirst,


ambitions of media personnel which often take them into highly paid positions serving the government.

There are some counter tendencies, for example the development of freedom of information procedures by government. How effective this comparatively recent innovation will be is not yet evident.

However, it is clearly a paradox when the same parties which in opposition championed freedom of information have, now that they are in government, institutionalised measures to restrict media access to information.

There is an important qualification to this argument for more media access to information, one that is raised by Peter Samuel in his article. There exist situations, such as when national security is at stake, when the public interest is best served by excluding the media from surveillance of government activities.

**Big government**

It has long been recognised by supporters of liberty that economic freedom and political freedom go hand in hand. The more dependent individuals and organisations are on government, the greater the opportunities for governments to use the privileges they grant to stifle criticism and hence free debate.

A feature of "big government" is that many organisations in society are increasingly tied to the State through subsidies, regulation and their dependence on government for approval of various activities. Governments today have an unparalleled opportunity to exert power over many institutions. This tends to close up sources of information to journalists (organisations receiving government grants may be unwilling to state their views frankly for fear of

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**Rewarding friends, punishing enemies**

"Newspaper managements have, I fear, put themselves and their editors at hazard. The interconnection between newspaper ownership and investment in other activities subject to government control or influence (radio, television and films, agriculture and mining and civil aviation, to say nothing of organised gambling and property development) has left active editorial independence vulnerable to political pressure.

Some managements have been reckless in abandoning the conditions necessary to maintain the editorial independence of their newspapers. Others have been cautious and restrained. But all have done so to some degree.

For example, each of the three main newspaper companies owns newspapers which have published competitions and gambling games ("Whingo", "Zingo" or whatever), which require approval from a State Government — approval which can be granted, postponed or withheld.

Now a good politician is one who, among other things, knows how to reward his friends and punish his enemies. And recent experience has shown that there are several good politicians in Australia in positions of power who have become very effective at distributing the punishments and rewards.

Given the growing threats to the public's right to know and to the editorial independence of newspapers, are we approaching the end of the era of the free, responsible and politically independent press in Australia? Probably not; at least not yet. However, that the question can even be asked should trouble us all — and, one hopes, our readers, too."

Creighton Burns,
Editor, 'The Age' 8th March, 1984
Speech at a conference of Australian and Japanese editors
government retaliation). It also affects news organisations themselves.

The Editor of 'The Age', Creighton Burns, in an historic statement, has drawn attention to the increasing hold of governments over the media brought about by the involvement of media organisations in activities heavily reliant on government approval and control.

Parties which championed freedom of information in opposition now that they are in Government have institutionalised measures to restrict media access.

It could be said that the problem Mr. Burns points to in relation to the editorial independence of newspapers applies equally to many business enterprises which are dependent on the government for many critical decisions affecting their corporate well-being.

Some solutions

The issues outlined in this article in part reflect wider problems in the society, such as the growth of the State and the spread of an intellectual culture which has made cynicism toward traditional Western values fashionable. Clearly, there are sections of the media which do exhibit a laudable degree of independence from government. Nevertheless, there is growing concern, even within the ranks of the media, that steps be taken to protect and strengthen the independence, diversity and objectivity of the media.

First, it is imperative that media organisations take more account of the influence of sociological factors on the way journalists report the news — the social pressures that act to compel conformity in sections of the press galleries, and the influence of the ideologies of journalists on the way they report reality. More effort should be made to ensure a diversity of political perspectives in the recruitment of media personnel. Just as important is the need to strengthen an ethic of professionalism firmly grounded in democratic values which would help bolster the integrity of journalists against insidious social pressures.

Second, as I have argued in a previous article, there are serious problems in the literature of media studies which forms part of the academic training ground for journalists. Much of this literature simply reinforces the hostile attitudes to Western democracies which Peter Samuel argues pervade the Western media. The quality of this literature ought to be improved.

In order to counter manipulation by government media units, journalists need to adhere more vigorously to the aims of a genuine investigative journalism, undeterred by the self-interested efforts of governments to centralise control over information.

Oppositions ought to aid this by themselves developing more effective techniques to counter the tendency for governments to try to monopolise information control. Indeed, on the face of it, oppositions would seem to have a clear potential advantage in gaining access to the media, given the shared concern of the media and oppositions with offering critical appraisals of governmental performance.

This may well involve a more efficient organisation of staffing resources by oppositions, so that more serious specialised research into the various
spheres of government activity can be undertaken.

Finally, the problem of big government and the potential it offers for control is endemic to our system. If the economics of modern media require that large organisations own many outlets it is essential that these organisations have maximum independence from government.
Journalists are typically portrayed as independently minded individuals who pursue their stories without fear or favour. U.S. research suggests the image is not quite matched by reality.

Jeanne Kirkpatrick, the outstanding intellectual of the Reagan Administration, recently asked rhetorically: "Can democratic governments survive the systematic and unsystematic distortion of political reality by the press, radio and television? ... Great concentrations of power in the media are as dangerous to human freedom as are great concentrations of power in governments". (Encounter magazine, November, 1983).

The great concentration of power in the American media (perhaps in the Western media more generally) is not a concentration of ownership but a concentration of ideology. Among those who work in the media there is a widespread and deep attachment to a left-of-centre ideology, deeply sceptical about conservative values, democratic institutions, free markets, the family and the rule of law and prepared to give the benefit of doubt to revolutionists, reformists, utopians, left terrorists and communists.

Concentration of power in the U.S. media is not a result of ownership but ideology.

I'm all for scepticism. Free journalists must be sceptical and there will always be tension between governments and journalists because it is their responsibility to ask awkward questions and report the truth stripped as clean as possible of the euphemisms and rationalizations in which officials will often suspend their professional scepticism when dealing with the left.

For example, in reporting the Lebanon war journalists uncritically accepted and reported day after day PLO-compiled numbers of supposed civilian casualties caused by the Israeli invasion. (Frank Gervasi, "Media Coverage: The War in Lebanon", Centre for International Security, 905 16th NW, Washington DC). In El Salvador they uncritically report numbers of right wing "death squad" killings as compiled by liberation-theology Catholic organisations that are clearly pro-communist (see David Asman, Wall Street Journal, February 10 — "Behind the Human Rights Tallies"). In the downing of the KAL airliner, they were all too ready to report, in a way which gave credibility, the Soviet suggestion that it mistook the Korean jumbo for a much smaller, different shaped and darkened US spyplane. A former Soviet air-defence radar operator was resident in the US and willing to give the lie to this, but was shunned. (Armed Forces Journal, March, 1984).

Rainbow of political viewpoints

A pluralist society deserves a pluralist media in which reporters and commentators reflect the rainbow of political viewpoints. They should mirror the various political viewpoints of the
community for which they are writing or broadcasting roughly in proportion to the representation of those viewpoints. Presently the media is patently unrepresentative, practising an elitist-pack-leftism. That is quite simply because of the leftist convictions of the overwhelming majority of the staff of media organisations. That fact is well documented by the large study of elite opinions conducted by Robert Lichter and Stanley Rothman under the auspices of the Research Institute on International Change, Columbia University. The results of 24 hour-long interviews with a sample of journalists and broadcasters responsible for news content at “the most influential media outlets” in the USA are reported in “Public Opinion” journal, October/November 1981.

Amongst those who work in the media there is a widespread and deep attachment to a left-of-centre ideology.

No wonder the public is subjected to left-pack journalism!

The "media elite" as described in the Lichter-Rothman study never voted more than 19 percent for a Republican candidate and voted between 81 percent and 94 percent for Democrat candidates in the last four presidential elections! As the study reports: “Over the entire sixteen year period, less than one-fifth of the media elite supported any Republican candidate. In an era when presidential elections are often settled by a swing vote of 5 to 10 percent, the Democratic margin among elite journalists has been 30 to 50 percent (points) greater than among the entire electorate.”.

American journalists are politically unrepresentative. They are also arrogant. They invoke the First Amendment of the US Constitution to assert their right not only to freedom from censorship and control, but to assert a right to unlimited access and information. They falsely claim the press has some constitutional right to accompany US military forces on operations and that government information cannot legitimately be withheld from the press and general public — that government has no right to secrecy.

Grenada Mission

The Grenada mission in late October 1983 was a fascinating case study. No journalists were allowed to land with US forces when they moved in to take that island from Cuban and local communist forces. Of course, journalists were right to want to be there to report the action for their readers and viewers. But they were completely wrong to assert that they had a constitutional and historic right to be there, as they did with virtual unanimity, reflecting once again the pack thinking that unfortunately pervades the profession.

Historically, the press has always been restricted and often excluded from covering military operations. The media were simply displaying their ignorance of the history of their own profession, or wilfully misrepresenting it, when they claimed journalists have traditionally had free access on the battlefield. Lester Kinsolving, a leading Washington journalist, researched the history of the profession’s treatment in time of war and gives examples which shows there is a consistent history of conflict between military commanders and reporters and of restrictions by commanders on journalists.
American journalists are politically unrepresentative.

The historic examples of Mr. Kinsolving are worth quoting if only because of the nice parallels they provide with current events: “As to the news organizations' operations, they appear to have overlooked the battle of Vicksburg. That brought another delegation of protesting news leaders to the White House 120 years ago. General William Sherman had not only prevented any reporters from covering his flank attack on Vicksburg via the Yazoo River but he actually court-martialed one of the six reporters who disobeyed this order, Thomas W. Knox, age 28, the leading war correspondent of the New York Herald. Knox disobeyed Sherman’s order by accompanying the Yazoo expedition. His dispatches were intercepted by Sherman’s soldiers ... Sherman summoned Knox, refuted most of the details of his story and said the reporter had not only disobeyed his orders excluding reporters from the combat zone but had also violated the articles of war which required that all news dispatched be submitted to the commanding officer before being sent for publication.

Knox who was a large and sarcastic New Englander known to his colleagues as ‘the elephant’ replied with a smirk: ‘You are regarded as the enemy in our set and we must in self-defense write you down’. Knox then travelled to Cairo, Illinois where he filed the intercepted story which was picked up by a number of additional newspapers. His graphic description of the casualty rate gave great comfort to the Confederacy and spread gloom in the north. On Sherman’s order Knox was promptly arrested, jailed and tried by court-martial and found guilty, but much to Sherman’s disgust since the generals wanted Knox hanged, he was simply ordered out of the war zone…”

(tape-recording of Kinsolving).

Press self-righteousness

Kinsolving cites many examples of cases where journalists have been accused, and often justifiably, of acting as enemy agents, and have been excluded from the battlefield.

The public are not fooled by press self-righteousness. In Grenada the noise of journalists grinding their own axes was easily discerned by the American public. The commentator John Chancellor who did an editorial on the NBC television network complaining about the exclusion of the press from the Grenada landing said the phone calls afterwards ran against him five to one. The trade publication, “Editor and Publisher”, found in a survey of daily newspapers that letters ran three to one in support of the Reagan Administration’s exclusion of the press.

There is a need to recruit journalists who reject the pack leftism presently so pervasive.

Max Frankel, editorial page editor of the “New York Times,” remarked that many of the public thought the journalists wanted to go in to Grenada “to sabotage the operation rather than to report it”.

If the current low standing of the media in Western countries is to be raised then proprietors, managers and editors need to come to terms with the bias of most of their staffs and to embark on a long-term effort to recruit and cultivate journalists who reject the pack-leftism currently so pervasive.
Mr. Hawke and Media Management

by Michelle Grattan*

Mr. Hawke and his Government have developed the techniques of media management to new levels of sophistication. A noted political journalist, Michelle Grattan, has analysed some of these techniques.

Everyone acknowledges Bob Hawke's enormous skills as a communicator. Less has been said about how Mr. Hawke has transformed the relationship between the Prime Minister and the journalists whose job it is to report and comment on the Federal Government. Yet that is one of his important achievements in his first year. It is one which makes harder a critical analysis of his Government.

Mr. Hawke has brought order and structure into leader-media contact. His techniques are in complete contrast to those of his predecessor, Malcolm Fraser — and much more effective.

No one who spent any time around Mr. Fraser would say he believed in open government, or was philosophically committed to giving journalists much access or information.

The Hawke entourage believes in the centralisation of information.

But at least in the latter stages of his Government he was unable to control the "gates" of information.

Contrast with Mr. Fraser

Mr. Hawke volunteers more information and he makes sure it is infinitely better packaged than did Mr. Fraser. On the other hand, in many instances his "gatekeepers" are more skilled at ensuring it is difficult to get further independent information, so maximising the chances of having the story presented as they want it.

I'm not talking here about "leaks", but rather the reporting of Prime Ministerial stories such as, for example, Mr. Hawke's steel initiative.

Indeed, the recent Hawke trip is a nice illustration of the Hawke media style — a style seen in its purist form when PM and journalists are together in a VIP plane overseas.

When abroad Mr. Hawke gives more Press conferences than did Mr. Fraser, who also talked extensively to the media when travelling but often on an unattributable "background" basis.

Mr. Hawke's best medium is television and he is highly sensitive to its needs. In Singapore, he wanted to break his talks with Lee Kuan Yew between the one-to-one and all-in (officials present) sessions because he knew television needed an early "grab" to meet its satellite deadline.

With Mr. Hawke, what you see on television is about what you would have got if you had been there on the ground or in the VIP plane — minus a bit of sporting and social chit chat.

When travelling, Mr. Fraser would, if pressed when talking to journalists at the back of the plane, launch into extensive if convoluted discussion about whatever

**"The Age" has given permission to reprint this article which appeared in its 20th February edition.**
issues were on his mind or on the itinerary.

Mr. Hawke will usually resist talking about substance in these informal sessions; he prefers to keep it light and bright.

Further, the Fraser staffers on trips (and at home) were more willing to argue about the propositions their leader was putting, seeking to explain or rebut media criticisms.

Centralisation of information

The Hawke entourage believes in the centralisation of information. Press secretary, Geoff Walsh, ex-‘Sun’, ‘Age’ and ‘Financial Review’ journalist who went to Mr. Hawke during the election campaign from the ALP Secretariat, is a diligent “gatekeeper”. The travelling experts, whether staff or bureaucrats, brief the Press under his eye, or the eye of Peter Barron, Mr. Hawke’s adviser on politics, including the politics of controlling the media.

The media have voluntarily relinquished the right it insisted on with Mr. Fraser: to question him anywhere, about anything.

Question the staff outside formal framework and two things are obvious. They are highly cautious and they are also inclined to report back to the Press secretary who is likely to contact the reporter.

The advantage of centralising information as much as possible is obvious when you look at the reporting of the steel initiative.

One reason why the travelling media has difficulty in taking that at other than face value was because of the limited information available on the spot.

Of course, even the best gate-keeper cannot always stop things getting a little out of hand, as with the reports that Mr. Hawke was conceding thousands of jobs would be lost in restructuring. That time, Mr. Hawke probably suffered rather than gained by not backing up his public comments with more private briefing.

At home, one of Mr. Hawke’s significant media achievements has been to get rid of the “gutter” interview.

As soon as he won office, he said he would hold regular Press conferences but would not be bailed up at doorsteps. It was a move welcomed by the print media (who had often criticised Mr. Fraser for having gutter interviews but refusing to have full Press conferences). Some television journalists, especially Laurie Oakes, had more doubts and, in retrospect, they were right.

Press conferences

Mr. Hawke has kept his word on regular Press conferences. But he determines the time of these and, as they are often about set events and statements, he starts with the advantage. By acquiescing in the abolition of the gutter stop, the media have voluntarily relinquished the right it insisted on with Mr. Fraser; to question him anywhere, about anything, leaving him with the alternative of answering or being seen, in front of the TV cameras, to refuse to answer. If reporters try to “doorstep” Mr. Hawke he simply says: “You know the rules”.

Bob Hawke brings some psychological techniques to bear in managing the media: they derive from the different facets of his complex personality.
Journalists like to be liked by Mr. Hawke and he seeks to absorb them into his consensus.

He is a man of extremes; immensely warm and charming and, not to put too fine a point on it, rather a bully (his advisers have worked hard to subdue this latter trait).

Journalists like to be liked by Mr. Hawke and he seeks to absorb them into his “consensus”. (He was very impressed in Japan to be told of the role of the media in promoting industry development).

A slap-down by Mr. Fraser was almost a compliment; the same treatment hurts when meted out by Mr. Hawke.

Mr. Hawke, who will tell you how badly the Canberra Press gallery compares with the Melbourne industrial roundsmen of his day, is trying to create the same relationship in Canberra as he had with his industrial reporters.

To the extent he succeeds, his opinion of the Canberra journalists will no doubt rise. But the national media will always remain somewhat more elusive, because Canberra is a big pond in which he is but the largest of quite a few fish.

Mr. Hawke uses intimacy, or the appearance of it, and his approval, or the withholding of it, as tools.

Need for distance
Take names. At Press conferences, he will often repeat a questioner’s name as a subtle sign of approval (as well as giving the more overt sign of complimenting people on questions). In private conversations he uses the nicknames his staff have given several journalists: “Butch”, “Maccers”. In Korea, in a recorded Press conference, he said “Butch” instead of “Barrie”.

(Bill Hayden sometimes uses “Mr.” or “Miss” to signal disapproval and create distance or, more neutrally, to show there is a certain formality in the Minister-journalist relationship. In contrast, when Paul Keating uses a questioner’s name at a Press conference, there are no overtones).

It was all a lot easier when the Prime Minister and the media enjoyed a healthy and overt dislike for each other.

None of the above points are made in criticism of Mr. Hawke. The ability to manage and manipulate the media is one of the most valuable skills a politician can acquire. Bob Hawke has that skill in abundance. It is not surprising if he takes every advantage of it.

The point is: the journalist’s trade is a quite different one with requirements often at odds with those of the politicians. It involves critical analysis which does not just degenerate into criticism for the sake of it, often a fine line. It calls for the preservation of some distance.

It was all a lot easier when the Prime Minister and media enjoyed a healthy and overt dislike for each other, and the Prime Minister was not so good at the game.
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