The Review is produced by the IPA in Victoria on behalf of the Institutes in all three States. The Institutes are non-profit educational organisations financed by business enterprises and people throughout Australia. Each Institute is controlled by an independent council (see inside back cover).

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.
TO OUR READERS

One of the aims of the Institute of Public Affairs is to examine how the values and aspirations of the Australian people can be more effectively realised.

To help us in this task we are drawing on some of the best thinking in industry, academia and journalism.

Solving unemployment is one of the key tasks facing the nation. Professor Richard Blandy of the National Institute of Labour Studies and Peter Ritchie, Managing Director of McDonald's, provide new insights and perspectives on this issue.

Educational standards are of major concern to many people. Peter Samuel, a Washington based correspondent, and Professor Michael Porter of Monash University look at aspects of this problem.

Property rights, welfare, the media and political communication are some of the other issues raised in this "Review".

The increasing number of subscribers to "Review" suggests to us that we are tackling questions of great relevance to many Australians. We hope you will be prepared to bring "Review" to the attention of other people who may be interested in our work.

A subscription form and some thoughts on how you can assist our subscription drive are listed on page 110.

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.
Editorial
The Budget: The Key Problem

Much of the debate leading up to the second Labor Budget has focused on the size of a ‘responsible’ budget deficit. A more important issue — the growth of government spending — has all but been ignored.

In recent months press comments have concentrated on the size of a responsible budget deficit; $5,000 million, $7,000 million or $8,000 million.

The discussion should have been about minus 1%, 1% or 2%. These percentages refer to the growth of Commonwealth Government spending which could be regarded as responsible.

It seems to have been ignored by many commentators that the same budget deficit can be derived from quite different expenditure and revenue aggregates.

A deficit of, say, $7,000 million can be arrived at by substantial increases in expenditure and tax revenues. Equally, a deficit of $7,000 million can be consistent with large reductions in expenditure and taxation.

Clearly, the two budget strategies have significantly different economic consequences although the outcome in terms of the deficit is the same.

It has been argued that the deficit must be reduced from last year’s figure of $7,960 million to avoid crowding out private investment through the impact of government borrowing on financial markets.

But the deficit is only one element crowding out the private sector. Of even greater importance is the overall effect on the economy of continued growth of government taxes and charges.

A recent study prepared by the U.S. Treasury, “The Effect of Deficits on Prices of Financial Assets: Theory and Evidence”, argues that government spending crowds out the private sector regardless of whether the spending is covered by taxing or borrowing.

“Since the government borrows to finance predominantly activities that do not add to future productive capacity, nothing is gained by substituting higher taxes for borrowing.”

The U.S. Treasury study concludes that the only certain way to avoid crowding out is to curtail government spending.

Expenditure control

Government spending during the Fraser years rose by a real average annual rate of about 2%. This performance was criticised by the IPA and many others as excessive.

The first Keating budget showed a real growth of no less than 8%, the highest since 1973/74. Press reports suggest government spending may increase a further 5% in real terms in the current financial year, giving an average annual real growth over the two Keating Budgets of about 6.5%.

To put these figures in perspective it is worth recording that in order to maintain the same real level of spending the Commonwealth Government would have to raise in 1984/85 an extra $3,500 million, compared with the previous year. Each
additional 1% increase in spending adds a further $600 million to outlays.

Even in the short term tight expenditure control can dramatically reduce the tax/borrowing requirement.

If real annual expenditure growth had been held to say 3% average over the two Labor Budgets (rather than the more likely 6.5%) then the Commonwealth Government's tax/borrowing requirement would be reduced by over $4,000 million in the current financial year.

'Fiscal incontinence'

The failure to provide clamps on government spending and the implementation of major new spending commitments, totalling over $2,000 million, in the first Keating Budget has made the task of expenditure control more difficult. Mr Keating has mentioned that the public debt interest (in part a reflection of last years over spending) and Medicare alone would push Commonwealth outlays up by between 3 and 4 percent in real terms in the current year.

Government spending is notoriously difficult to reduce. Each new commitment creates new pressures for further real increases in funding in the years ahead.

In short, the fundamental issue that Mr Hawke and Mr Keating will have to address is the level of public spending. Unless they can wind back the growth of government spending they are setting the Government in the direction of an ever-increasing level of taxation with its consequences of depressing private activity, reducing productive employment and undermining Australian competitiveness.

Indeed, the need to fund substantial increases in Government spending is the reason why so much attention is being given to the development of new taxes.

Individuals, companies (and ultimately the standing of the Labor Government) will suffer if the Government has another attack of fiscal incontinence.

<table>
<thead>
<tr>
<th>COMMONWEALTH OUTLAYS</th>
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<tbody>
<tr>
<td>Government</td>
</tr>
<tr>
<td>Whitlam 1973/74</td>
</tr>
<tr>
<td>1974/75</td>
</tr>
<tr>
<td>1975/76</td>
</tr>
<tr>
<td>1976/77</td>
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<td>1977/78</td>
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<td>1978/79</td>
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<tr>
<td>Fraser 1979/80</td>
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<td>1980/81</td>
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<tr>
<td>1981/82</td>
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<tr>
<td>1982/83</td>
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<tr>
<td>Hawke 1983/84(e)</td>
</tr>
<tr>
<td>1984/85(e)</td>
</tr>
<tr>
<td>6.5% p.a.</td>
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</tbody>
</table>
Welfare Lobbies and Taxes
...do their proposals cause poverty?

The literature of welfare groups and church social justice commissions reveals a striking preference for big government/high tax solutions to poverty.

The pamphlet "Changing Australia" produced by the social justice commissions of four churches, for example, argued Australia was a lightly taxed country and pointed to the lack of effective capital gains and probate duties.

More recently, Canon Peter Hollingworth, executive director of the Brotherhood of St. Laurence, criticised the prospect of sizable tax cuts in the August Budget.

Welfare groups often assume that higher taxes will provide more funds to help the needy and reduce inequality.

They give virtually no recognition to an alternative view that higher taxes will only exacerbate problems of poverty and inequality by reducing incentives to work hard, save, and invest, thereby reducing the wealth available for redistribution.

A recent World Bank Report, "Links between Taxes and Economic Growth" sheds some light on this important issue.

The Report looks at the experience with growth and taxation in twenty countries spanning a wide spectrum of world incomes.

As the table overleaf shows the countries with a lower effective average tax burden on their populations achieved substantially higher real rates of growth than the more highly taxed countries.

Faster rates of economic growth allowed a substantial rise in real living standards in the low tax countries, shown by their higher levels of private consumption.

At the same time, the study pointed out that economic growth expanded the tax base and generated increased revenues which financed a more rapid increase of expenditure on government services such as defence, health and education, in all low tax countries except in the Paraguay/Peru pairing (see table). In Peru faster growth was achieved at the expense of both private consumption and investment.

The Report also says that available data on income distribution seem to refute the argument that countries with higher taxes are more equitable than those with lower ones.

The Report concludes that its "preliminary findings indicate that lower taxes are compatible with a pattern of development that raises output and reduces poverty significantly".

In short, the 'small government' approach taken in the World Bank Report is diametrically opposed to the philosophy of the document "Changing Australia" published by church social justice commissions, and also the ACOSS submission to the Economic Summit.
Churches and welfare groups have shown increased interest in economic policies in recent years. By ignoring the ‘small government’ approach and uncritically accepting the Left analysis, they may well be promoting policies which aggravate poverty and inequality.

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<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Malawi (low tax)</td>
<td>200-300</td>
<td>11.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Zaire (high tax)</td>
<td>200-300</td>
<td>21.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>Cameroon (low tax)</td>
<td>500-600</td>
<td>15.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Liberia (high tax)</td>
<td>500-600</td>
<td>21.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Thailand (low tax)</td>
<td>500-600</td>
<td>11.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Zambia (high tax)</td>
<td>500-600</td>
<td>22.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Paraguay (low tax)</td>
<td>700-1100</td>
<td>10.3</td>
<td>8.3</td>
</tr>
<tr>
<td>Peru (high tax)</td>
<td>700-1100</td>
<td>14.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Mauritius (low tax)</td>
<td>1100-1300</td>
<td>18.6</td>
<td>8.2</td>
</tr>
<tr>
<td>Jamaica (high tax)</td>
<td>1100-1300</td>
<td>23.8</td>
<td>-0.9</td>
</tr>
<tr>
<td>Rep. of Korea (low tax)</td>
<td>1400-1700</td>
<td>14.2</td>
<td>10.3</td>
</tr>
<tr>
<td>Chile (high tax)</td>
<td>1400-1700</td>
<td>22.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Brazil (low tax)</td>
<td>1700-2100</td>
<td>17.1</td>
<td>8.7</td>
</tr>
<tr>
<td>Uruguay (high tax)</td>
<td>1700-2100</td>
<td>20.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Singapore (low tax)</td>
<td>3800-5950</td>
<td>16.2</td>
<td>8.4</td>
</tr>
<tr>
<td>New Zealand (high tax)</td>
<td>3800-5950</td>
<td>27.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Spain (low tax)</td>
<td>4300-6350</td>
<td>19.1</td>
<td>4.4</td>
</tr>
<tr>
<td>United Kingdom (high tax)</td>
<td>4300-6350</td>
<td>30.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Japan (low tax)</td>
<td>8800-11,950</td>
<td>10.6 2)</td>
<td>5.2</td>
</tr>
<tr>
<td>Sweden (high tax)</td>
<td>8800-11,950</td>
<td>30.9</td>
<td>2.0</td>
</tr>
<tr>
<td>United States</td>
<td>10,630</td>
<td>18.5</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: World Bank, "Links Between Taxes and Economic Growth"

1) Central Government tax revenue only, average ratios 1970s.
2) Includes non-tax revenue but excludes social security contribution.
3) GDP

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The Middle Ground
...where is it?

It's a cliche of politicians that any political party has to stand on the middle ground if it wants to win elections.

The nature of this middle ground is rarely described. During the 1970s political leaders made strenuous efforts to 'discover' the middle ground by using scientific opinion polling.

They discovered that there was wide agreement among Australians on the kind of life they wanted. (In basic values we have been a remarkably united nation).

They also discovered, however, that the Australian people held contradictory views on how to achieve this.

The middle ground turned out to be full of traps and bogs!

For example, Australians seem to believe that:

- taxes are too high, but welfare provisions should be improved not cut back;
- private enterprise is the way to prosperity but price controls (which destroy the basis of private enterprise) can be justified;
- jobs should be created for young people, but the arbitration system (which prices young people out of jobs) is a good thing;
- governments should be tough with trade unions but people don’t like the disruptive strikes that result.

With a middle ground like this it is no wonder that government policy often finds it difficult to settle on any stable approach to solving national problems.

It explains why it is often in the interests of governments to say one thing and do another.

There is no magic key to successful government buried in the middle ground.

All democratic governments have to give close attention to what people think but ultimately they will be judged by their capacity to lead opinion rather than follow it.

Rather than slavishly trying to follow the inconsistencies of public opinion, our political leaders should have the courage to help Australian people recognise their inconsistencies and the wisdom to show in which direction the solutions lie.

A middle ground which provides a firm footing is the general commitment of Australians to job opportunities for all and reasonable scope for private enterprise and individual achievement.

Among other things national leadership will have to convince the people that:

- if they want low taxes, governments will have to spend less;
- if they want private enterprise to provide prosperity and jobs, it will have to have the freedom and rewards to do so;
- if they want young people to find work, a wage system that sets youth wages at unrealistic levels will have to go;
- if they want union power to be curbed they will have to support their government in the confrontations with unions which will occur from time to time.
More Employment
...from macro to micro

Government Ministers, notably Mr Hayden and Mr Willis, have been painting doleful pictures of future employment prospects.

Mr Hayden has said that in order to reduce unemployment levels from around 9 to 2.5 percent, the economy would need to sustain an average annual growth rate of around 5 percent for the next decade.

This growth rate would be more than 50 percent higher than that experienced during the 1970s.

The belief that an average annual growth of around 5 percent is simply not achievable accounts for the pessimism pervading Government (and Opposition).

Is this defeatism justified?

The US economy with a comparatively low average annual growth of 2.5 percent during the 1970s (compared to Australia’s 3.5 percent) was able to create 20 million new jobs. This job creation performance was some 50 percent better than Australia’s (adjusted for population).

The Government appears mesmerised with macro-economic projections worked out by its departmental economists. The focus on rapid growth as the cure for unemployment may not only confuse cause and effect, it can also distract attention from a whole range of policies which create opportunities for enterprise and generate jobs.

It should, in short, turn its attention to micro-economic realities in the market place.

The economy, and with it employment, will surge ahead when the Government itself gets off the community’s back, as pointed out by Professor Richard Blandy on page 66 of this Review.

Business enterprise is hamstrung by the huge dead-weight of taxation (State and Local as well as Federal), the ever-increasing multitude of Government regulation with which it has to contend, and by an overly-rigid centralised wage-fixing system which ignores market realities.

In a recent speech, Les Hollings, Editor of “The Australian”, pointed out that the success of the US in creating new jobs has come from small companies mainly in the service industries; “...the new jobs are created by those firms that go from five jobs to ten jobs — or even more, from no job to one, two or three. They create the jobs, not General Motors or similar giants.

“The services sector in America is not strongly unionised, and it is not strongly regulated. Outlets can open and close pretty well when they want to and there is a fairly free market in wages.

“So, without any planning at all, left largely to its own devices, this area has been the saving of America. In fact it has become its strength.

“Compare this to Australia. Although we have had strong growth in services, we are too strongly regulated. The regulation on small business on wages, opening hours, taxation has sapped much of the vigour from our services sector growth”.

Its over-emphasis on macro-economics is leading the Government astray. What is needed is a strong dose of micro-economic thinking.
Public Sector Inflation
...at high levels

The public sector continues to provide much of the inflationary impetus in the economy.

If changes in the health component of the CPI (which affect both private and public sector inflation) are excluded, public sector inflation rose by 11.6 percent over the last year while private sector prices increased by 5.1 percent.

<table>
<thead>
<tr>
<th>INFLATION — PUBLIC AND PRIVATE</th>
<th>(% increase, June Qtr. 1983 to June Qtr. 1984)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>after medicare</td>
</tr>
<tr>
<td>Private Sector Index</td>
<td>2.2</td>
</tr>
<tr>
<td>Public Sector Index</td>
<td>9.3</td>
</tr>
<tr>
<td>TOTAL CPI</td>
<td>3.9</td>
</tr>
</tbody>
</table>

In order to measure the relative impact of government policies on consumer prices, indexes have been calculated, based on the latest Australian Bureau of Statistics data.

The public sector index is for goods and services where prices are determined mainly by the public sector and the private sector index covers goods and services where prices are determined largely in the market place.

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

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

Automotive fuels, tobacco, alcohol also have been included in the public sector index because of the significant influence that government policies have on their prices. While these goods are privately produced and distributed, at least 50 percent of their price to the consumer is made up of various taxes and charges.

The following table shows increases in selected public sector and publicly influenced items in the last year.

<table>
<thead>
<tr>
<th>HIGH PUBLIC SECTOR INFLATION ITEMS</th>
<th>(% increase June Qtr. 1983 to June Qtr. 1984)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarettes and Tobacco</td>
<td>20.3</td>
</tr>
<tr>
<td>Public Transport</td>
<td>13.2</td>
</tr>
<tr>
<td>Automotive Fuels</td>
<td>16.0</td>
</tr>
<tr>
<td>Local Government Rates and Charges</td>
<td>10.4</td>
</tr>
<tr>
<td>Alcoholic Beverages</td>
<td>10.2</td>
</tr>
<tr>
<td>Postal and Telephone Services</td>
<td>9.8</td>
</tr>
<tr>
<td>Govt. owned dwelling rent</td>
<td>9.4</td>
</tr>
</tbody>
</table>
Achieving Full Employment
by Professor Richard Blandy

Our political leaders seem resigned to the notion that unemployment in Australia will continue at high levels. Professor Blandy argues that the overall unemployment problem can be solved.

A return to economic health and a rapid increase in jobs to meet the legitimate aspirations of the unemployed needs a policy to harness the energies of the community at the grass-roots. This policy encompasses three interdependent areas: macro-economic policy, industry policy and wages and industrial relations policy. These policies must reinforce each other in promoting the goal of liberating the capacities of individual Australians to solve their own, and therefore the community’s economic problems.

In macro-economic policy, Governments should aim to create a stable overall policy environment which reduces one of the major hazards to individual endeavour — risk and uncertainty from activist Government policy. In particular, inflation and interest rate expectations should be wound down by steady reduction in the rate of growth of the money supply and in the size of the Government sector structural deficit.

In industry policy, Governments should aim at a reconstruction of Australian industry on the basis of performance arising from free competition rather than an ability to wring favours and concessions from Government. Successful endeavour at the grass-roots must be shown to reap concomitant rewards which will not be redistributed to special producer interests (including those in the public sector) lobbying Government for favoured treatment. Only in this way can Australia progressively replace its “lame duck” industries with flourishing growth industries in which new jobs will be created.

Contrary to the pretensions of Government “planners”, Governments and bureaucrats are even less capable of picking industrial winners than are ordinary Australians. The edge held by Government and its bureaucrats lies in altering the competitive environment to protect its choices, thereby withdrawing...
resources from and reducing the prospects for success of other activities.

Contrary to the pretensions of Government "planners", Governments and bureaucrats are even less capable of picking industrial winners than are ordinary Australians.

In such a policy environment, rational individuals concentrate on securing Government patronage in one form or another for this is the way to security and resources (transferred through Government policy at the expense of those not able to win such favours). Those, generally in the public sector, who denounce Australia's businessmen as undynamic and uncompetitive are often denouncing a rational response to an environment the public sector has itself created and sustained.

In a deregulated, non-interventionist economic environment, Australia's successful businessmen would be as dynamic and competitive as any in the world. In particular, the thousands of invisible, vital small enterprises where most of the extra jobs will come from will be given a chance. Invisibility is not a characteristic favoured by dispensers of public patronage. Deregulation, especially, but not only, in financial markets, is crucial.

In wages and industrial relations policy, the emphasis again should be on encouraging individual workplaces to develop their own solutions through bargaining between the parties directly involved. These parties may elect to negotiate at least some matters at industry, State or national level. Indeed, the national level is a proper place for general expectations to be set in terms of a general rate of wage increases which will be consistent with achieving and maintaining non-inflationary full employment. Conferences, like the Summit Conference or conferences called by the Arbitration Commission, can help set such a climate of general expectations. These might be made annual or bi-annual events with the express purpose of setting an overall climate of expectations about wages.

Beyond that, employers, unions and employees generally should be left free to negotiate terms which suit themselves provided they are not free to prevent other firms, unions and employees from negotiating different packages of pay and conditions. Those who choose to settle for too high rates of pay will become uncompetitive in output markets and face the consequences of that; those who settle for too low rates of pay will become uncompetitive in labour markets and will face the consequences of that.

But more important, it is only at the grass-roots that common interests can be discovered and enlarged and the commitment of people be engaged. This commitment to common interests is a central factor in productivity enhancement — on which competitiveness, jobs and incomes ultimately depend. The state of industrial relations and of workplace relations in general is the key to dynamic prospects for the whole economy.

Our unemployment problem can be solved, but the overall solution can only be as a result of changes in grass-roots behaviour within the thousands of workplaces in Australia. Full employment policy should be directed at achieving these changes.
Removing Barriers to Youth Employment

by Peter Ritchie

The Managing Director of McDonald's, a large employer of young people, argues that the policies of unions, industrial courts and some Governments are keeping young people out of jobs.

As I write this article, the Government and the media are totally immersed in debate about the terms upon which we will all retire. (Australia seems to have a long-standing preoccupation with retirement).

How can we spend so much national effort debating how well we are going to retire when our youth are going jobless.

I am amazed that the Government and the nation could spend so much time and effort debating how we will divide the unbaked cake, while right before our eyes, the oven has broken down and the mix is looking very doubtful.

In a nation of only 15 million people, how can we spend so much national effort debating how well we are going to retire when our youth are going jobless to this extent—

These numbers are staggering, but not surprising when you consider that the unions, the industrial courts, and to a certain extent State Governments, have all colluded to increase the proportion of young people unemployed.

Compare this current rate of youth unemployment with national rates in the 1960s.

YOUTH UNEMPLOYMENT, 1964-1969

(Percent, 15-19 age group)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>2.2</td>
</tr>
<tr>
<td>1965</td>
<td>2.8</td>
</tr>
<tr>
<td>1966</td>
<td>3.0</td>
</tr>
<tr>
<td>1967</td>
<td>3.8</td>
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<tr>
<td>1968</td>
<td>3.7</td>
</tr>
<tr>
<td>1969</td>
<td>3.0</td>
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</tbody>
</table>

What went wrong in the 1970s?

A large part of the answer is that until the early 1970s the number of young people staying at secondary school until final year was rising. Since the mid-70s this trend has reversed and more teenagers are joining the labour market before completing high school.

This in itself is a concern — approximately 35% of our young people remain in secondary school until their final year. In the United States, Canada and Japan by comparison, more than 70% of young people completed their last year of high school, and the retention rate in most
of the OECD countries is also much higher than in Australia.

Australian statistics show that retention of students in the later years of high school is very closely related to the socio-economic status of parents. Retention in non-Catholic, non-government schools is nearly 90% whereas it is under 50% in Catholic schools and under 30% in government schools.

(The Commonwealth Government has recognised this problem and has attempted to alleviate it by funding a Participation and Equity Programme, which is aimed at raising the participation of disadvantaged groups in secondary education and TAFE.)

This is something we at McDonald's have been closely in touch with during the past 10 years. Through regular meetings with the parents of our young casual employees we have become very aware of how significant the income from a casual job is to the young employee and to the family who must otherwise support their son or daughter during the later years of education.

It seems to me that the number of such casual jobs available to teenagers in Australia has been falling over the years to the point where they are now almost non-existent. (When we open a new McDonald's we hire about 70 casual employees — we have on average more than 700 applicants for those jobs.)

From my own observation I can contrast the Australian situation with the United States and Canada where casual jobs for young people are readily available and, it seems, almost every high school and college student has a casual or vacation job.

It almost appears as though there has been a conspiracy among large employers, Industrial Commissions and State Governments to discriminate against young people.

I have found it very difficult to convince State Industrial Commissions that McDonald's employment of young casuals can have a significant impact on the 15-19 year old unemployment levels. However, the trend of numbers falling in the upper levels of secondary schools and the statistical evidence regarding the co-relation of socio-economic level and retention in secondary education, as well as my regular contact with parents, has made it very clear to me that the availability of casual jobs for young people can have a direct and meaningful effect on the 15-19 year old unemployment rate in Australia.

When we look at the actual number of permanent jobs available for young people it almost appears as though there has been a conspiracy among employer bodies, large employers, Industrial Commissions and State Governments to discriminate against young people

— Junior rates of pay have been eliminated in most awards in Australia. An award with junior rates is now a rarity.

We are forcing a 15 year old, straight out of school, and maybe not out of puberty, to compete in the job market with a 21 year old who is at a completely different stage of physical, emotional and vocational development.

— In those few awards where junior rates are retained they have been increased
relative to adult rates, making them much less attractive.

— In many cases where junior rates are maintained, the adult rate of pay has been introduced at 18 years of age. There is some logic in this when we consider young people to be adults for the purposes of electing our Governments, but it does not make much sense when you consider that many of our young people are first entering the labour market at that age, with no job skills or experience.

— “Proportion clauses” are one of the most illogical aspects of our current award treatment of young people. These clauses are in most awards where junior rates are provided and from my experience the unions are trying to add to them or strengthen them, despite the fact that they discriminate against the employment of young people. These clauses restrict the numbers of young people that can be employed by a particular employer to a minimal proportion of the total workforce.

I have often wondered in fact whether these clauses would stand up to a challenge under our anti-discrimination legislation.

— The N.S.W. Government has announced its intention to do away with junior rates of pay in the retail industry from January 1, 1986.

— The A.C.T.U’s general policy on youth wages is that they should be increased relative to adults.

— Despite enormous growth in public sector employment young people have not benefited. Public sector employers have preferred more experienced and better educated people.

These changes over the last 15 years have come about largely as a result of a number of pressures, but employer bodies, employers, and governments have all played a part.

The risk of winding up with a poorly trained and poorly motivated workforce in years to come is very high.

It is understandable how, in the past, each of those groups could have believed they were either protecting jobs for adults or stopping exploitation of young people, but times have certainly changed and we need to reassess the situation.

Protection of adult jobs

Now that the rate of unemployment of young people is three times that of adults, and the nation’s future is likely to suffer, I think we should recognise that if there really is to be a trade-off it would be better in the long run to have fewer young people out of work.

The risk of winding up with a poorly trained and poorly motivated workforce in years to come is very high.

When a present State Government Minister, Barrie Unsworth (ex Secretary of the N.S.W. Trades and Labour Council), can say that the smart unemployed teenagers are those who spend their days at the beach surfing; when the costs of employing and training young inexperienced people are high and rising; when the apprenticeship system is falling down around our ears; and when the work skill of our trades people is declining relative to many countries of Asia — surely it is time we reviewed rates of pay, and recognised that the early years of a young person’s employment are really training years and in fact “education on the
job” provides an alternative to continued secondary education.

The traditional apprenticeship system is obviously declining because it has been applicable only to the traditional trades, most of which are shedding people.

I think we should regard the early years of employment, at junior rates of pay, as an apprenticeship system which could apply to those industries where employment is growing — the service industry, tourism and entertainment, retail and wholesale trade, and finance and banking.

Exploitation of youth?

The retail industry is one of the few left with junior rates. McDonald’s employs a large proportion of junior employees and yet our average rate of pay in Australia is still higher than all but three other countries of the world:

<table>
<thead>
<tr>
<th>Country</th>
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</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>6.57</td>
</tr>
<tr>
<td>Denmark</td>
<td>6.43</td>
</tr>
<tr>
<td>Switzerland</td>
<td>6.37</td>
</tr>
<tr>
<td>Australia</td>
<td>5.98</td>
</tr>
<tr>
<td>Holland</td>
<td>4.93</td>
</tr>
<tr>
<td>England</td>
<td>4.49</td>
</tr>
<tr>
<td>United States</td>
<td>4.29</td>
</tr>
<tr>
<td>New Zealand</td>
<td>4.25</td>
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<tr>
<td>Spain</td>
<td>4.14</td>
</tr>
<tr>
<td>Canada</td>
<td>4.09</td>
</tr>
<tr>
<td>France</td>
<td>3.46</td>
</tr>
<tr>
<td>Germany</td>
<td>3.37</td>
</tr>
<tr>
<td>Japan</td>
<td>2.77</td>
</tr>
</tbody>
</table>

A recent in-depth study was conducted throughout Australia and the resulting Commonwealth Government report “Youth Wages, Employment and Labour Force” reached the major conclusion that “youth employment has been adversely affected by the increase in relative youth wages in the 1970s”. (This report on such a vital topic seems to have fallen down behind a cabinet in Canberra. Nothing has been heard of it since its release last year.)

Far from exploiting young people, junior rates of pay actually protect jobs for juniors, give them an advantage in the market-place to help compensate for their lack of maturity and experience. All our statistics indicate that the young people of Australia are being priced out of work!
How a Canadian Province Tackled 'Big Government'

by Dr. Michael Walker

Over a year ago, the Bennett Government of the Canadian Province of British Columbia made one of the boldest attacks yet seen in Western Democracies on 'Big Government'. Faced with a spiralling Government deficit, the Bennett Government introduced policies which emphasized spending reductions, privatization and deregulation. Michael Walker, Director of the Fraser Institute based in Vancouver, Canada, assesses the results of the Bennett programme and the lessons to be learnt.

During the '70s

Public services grew rapidly in British Columbia with the availability of government revenues derived from resource income as well as personal and corporate taxation. There was also, during the period, an unexpected and unparalleled explosion in the expenditures on programs such as health care and human resources.

It is my view that quite apart from the common impression that public servants are lazy, stupid and incompetent, they are, on the contrary, intelligent, hard-working and conscientious.

In part, the explosion of expenditures on human resources was a result of the growth of programs which reflected, in turn, the increasing size of the civil service in the period from 1972-1980. The reasoning of this article is in the nature of a conjecture, based as follows: It is my view that quite apart from the common impression that public servants are lazy, stupid and incompetent, they are, on the contrary, intelligent, hard-working and conscientious. They are also imaginative and the only outlet they have for that imagination is the creation of more programs and subprograms within the government framework. Given the elasticity of budgets and the pliability of most inexperienced, inexpert ministers, policy often percolates up rather than down. And so, growth in the size of the public service was the occasion for highly leveraged growth in the overall level of government spending.

The deficit grows

The arrival of the 1980s slump and the consequent decline in demand for forest products and minerals hit governmental revenue severely and quickly. From a peak of $1.3 billion in 1980 total natural resource revenue had fallen to a low $540 million by 1983. From 23 percent of total revenue in 1980, natural resource revenue declined to less than 9 percent by 1983. In the face of this significant decline in revenue from natural resource sources, total expenditure growth, largely because of statutory programs, was 46 percent.

Corporate income tax revenue also collapsed, there was a decline in sales tax revenue and a failure of personal income tax revenue to rise significantly. As a result, there was a dramatic escalation in the size of the provincial deficit. From a level of
The new approach

At the time when the 1983-84 budget was struck, however, the incipient deficit exceeded $2 billion, an amount which would have placed the deficit at 5 percent of the gross provincial product. The actual $1.3 billion deficit amounts to about 3 percent of gross provincial product.

The provincial government’s reaction to this situation, devised by Premier William Bennett, came in two stages: a budget delivered in July of 1983 and a second budget delivered in February, 1984. The 1983 budget brought with it 27 pieces of legislation which were aimed at a variety of regulatory and expenditure targets. The package had three overall objectives. The first, and I think the most important, was to state a philosophy about the role of government. The second was the cutting back of the size of the public sector and the beginning of control over the expenditure process. The third objective was deregulation.

The philosophy involved a more limited government presence and expanded participation of the private sector in the delivery of government services.

The philosophy of government, expressed in the budget and legislative package, involved a more limited government presence and expanded participation of the private sector in the delivery of government services. The words of the Minister of Finance in his budget of July, 1983 are indicative:

I remain committed to a government role in the economy which supports private initiative, which provides permanent and rewarding jobs, and which builds a secure and prosperous economic future. No country or region has achieved enduring prosperity through expansion of overbearing government bureaucracy. Those governments which lean too heavily on the taxpayer, suppress individual initiative and mortgage the future, will inevitably precipitate economic decline.

The second set of objectives, reductions and expenditure control, were to be accomplished first of all by an outright reduction of 25 percent in the numbers of public servants, the privatization of public services such as legal audit and other infrastructural services provided by public servants, and by direct expenditure restraint in the various departments. There was also an announced program of reductions in non-civil service employment. For example, it was proposed to reduce the number of teachers employed, bringing the teacher/pupil ratio down to the level which it had reached in 1976, the year in which the students in the province reached a peak. The implication was several thousand layoffs.

The area of expenditure control was the most disappointing aspect of the July, 1983 package. The budget provided for increases over the fiscal year of expenditures at the rate of 12.3 percent. In part, of course, that is explained by the fact that the budget was framed after the fiscal year was well in train. It may also reflect the fact that an election occurred on May 5 midway through the first quarter of the fiscal year retrospectively affected by the budget. In any event, the deficiency was corrected in
the Government's February 20, 1984 budget. That budget provided for an actual decrease in expenditures relative to the base established in the 1983 budgetary estimates. Overall the two budgets provided for an increase in expenditures less than the rate of inflation which means that by the end of the fiscal year 1984-85 government expenditures in real terms will actually be below the 1982 level.

Mass rallies and demonstrations of an unprecedented size were mounted across the province and the media coverage strongly suggested that the government's actions had been a colossal, political mistake.

The third aspect of the government's program was deregulation. In my view it involved two aspects. First of all, there was outright deregulation in the sense of the abandonment of rent control and restructuring of the Human Rights Commission, together with an indication that further deregulation would be carried out in order to make British Columbia a more attractive environment for business investment, including a review of the province's labour code. However, no outright modifications of that code were suggested by the government at the time.

Key provisions
The public presentation of the budget and legislative package in July 1983 appeared starkly in the following summary form:

1. The budget and legislative packages provided for a 25 percent reduction in the level of public service staffing to be accomplished in part by a legislative amendment which gave the government the power to fire without cause. (This provision was subsequently amended and eliminated).


3. Abolition of rent control.

4. The privatization of many governmental services.

5. Elimination of many teaching positions.

6. Restraint on the growth in university budgets requiring potentially the laying-off of tenured faculty.

7. The elimination of expenditure programs affecting a large number of British Columbians.

The public response
It is understandable, given that the government had been completely obvious in its objectives and its intents, that the budgetary-cum-legislative package produced a strong, negative reaction. A coalition of labour and special interest groups under the banner of "Solidarity" set out to establish an extra-parliamentary opposition to oppose the government's program. Mass rallies and demonstrations of an unprecedented size were mounted across the province and the media coverage of the event strongly suggested that the government's actions had been a colossal, political mistake.

The press coverage of the reaction was, in part, a reflection of the media's own wishful thinking rather than careful
analysis. Thus, for example, the media had been predicting the triumph of the New Democratic Party over the incumbent Social Credit Government and the media coverage of the election campaign had strongly suggested a landslide victory. This wishful thinking defect emerged again, in my view, in the coverage of the reaction to the expenditure and legislative program.

The passage of events — and the polls at the time — suggest that there was initial opposition to the government’s tactics but not to the objectives of the program. Popular opposition was based in large measure on what people believed to be the government’s plans for the Human Rights Commission. In other words, the objective of restraint and reductions in the public sector were widely agreed to, the tactics which it was perceived the government was using, including the firing without cause and the coincident abolition of the Human Rights Commission, were not widely supported.

The government’s stance now is accepted and widely supported.

With passage of time, however, the Government’s stance now is accepted and widely supported. Poll results at the time of this writing indicate that the Government’s core voter supporter is now higher than at the time of the last election.

The lessons

In retrospect, I think it can be judged a success, not only the British Columbia experience, but also in terms of the precedent it has set for other provinces across the country. Many critics of the Bennett Government, even those of a conservative persuasion, argued at the time that the cause of restraint had been set back by half a decade because the Government had moved more quickly and more obviously than people were willing to tolerate. The evidence now appears to be just the opposite. In a marked way, the British Columbian developments have set the tone for developments across the rest of the country. Wage freezes, public service cutbacks, and expenditure cuts have followed in at least three other provinces which have recently tabled their budgets.

In particular, the ability of governments to pursue restraint, particularly with regard to the employment conditions of public servants, has been immeasurably enhanced by the Bennett package. It has expanded the portfolio of potential responses to public servants who do not bargain in an economically realistic way. Every public sector union approaching the bargaining table during the coming years will now realize that it too can be “Bennettized”.

It is difficult to know the lessons that other governments will or ought to take from the experience in British Columbia. For one thing, what has happened in British Columbia has permanently altered the political environment. In British Columbia, the full brunt of special interest pressures were brought to bear on a government bent on changing the institutional environment and were turned back.

The labour movement in the province opposed the measures. Organized labour is stronger in British Columbia than anywhere else in North America. Almost 50 percent of the workforce is unionized and it has been widely regarded as a “labour province”. The failure of the Solidarity coalition of interests to make a fundamental dent in the policy position of the British Columbia Government makes it highly unlikely that such activities would be successful elsewhere. It is doubtful that
Precipitate action may be the single most important element of the policy change process.

Because of the British Columbia outcome, strategies of governments in other jurisdictions in Canada at least can now be of a more "moderate" sort and still accomplish the same objectives. One element of the British Columbia programme is the fact that the policy change was done decisively and quickly upon the Government taking office. While there will be a process of continuous change during the course of the Government's term, I think that Drs. Milton and Rose Friedman in their recent book, *The Tyranny of the Status Quo*, are right in saying that precipitate action may be the single most important element of the policy change process. That is a policy lesson which transcends national borders and jurisdictional peculiarities — but then it is not a new lesson.
Public Sector Employment

...a major economic rigidity

by Jacob Abrahami

There are many ways of measuring the size of government. The number of government employees is one of the most revealing measures. Even allowing for the difficulties of standardising international statistics, Australia, on this basis, is certainly in the ‘big league’.

Everybody these days seems to be talking about the need for restructuring the economy. For most people, “restructuring” seems mainly to mean reducing levels of protection in manufacturing industry.

But “restructuring”, to make sense, should be aimed at using all resources of manpower, materials and equipment — not just those in manufacturing — in the most efficient manner possible.

Restructuring should be aimed at using all resources — not just those in manufacturing — in the most efficient manner possible

An examination of Australia’s public sector should be at the top of the Hawke Government’s list of proposals for restructuring the economy.

Proportionally, Australia has more government employees than almost any other country.

A survey by the International Monetary Fund (1) covering 60 countries shows that among the industrial countries only in Sweden and Denmark is a greater proportion of the population employed by government.

In Australia, for each 100 inhabitants 9.8 persons are employed in general government (2)

<table>
<thead>
<tr>
<th>GOVERNMENT EMPLOYMENT (per 100 of population)</th>
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<tbody>
<tr>
<td>Australia ........................................ 9.83</td>
</tr>
<tr>
<td>Austria ......................................... 8.06</td>
</tr>
<tr>
<td>Canada .......................................... 6.22</td>
</tr>
<tr>
<td>Denmark ......................................... 11.35</td>
</tr>
<tr>
<td>France ........................................... 5.73</td>
</tr>
<tr>
<td>Germany ......................................... 6.06</td>
</tr>
<tr>
<td>Italy .............................................. 5.34</td>
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<tr>
<td>Japan .............................................. 3.75</td>
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<tr>
<td>Netherlands ..................................... 5.46</td>
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<tr>
<td>Norway ............................................ 8.80</td>
</tr>
<tr>
<td>Sweden .......................................... 14.66</td>
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<tr>
<td>Switzerland ...................................... 4.76</td>
</tr>
<tr>
<td>U.K. .............................................. 9.57</td>
</tr>
<tr>
<td>U.S. .............................................. 7.77</td>
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It appears that in the past official statistics have underestimated the number of people working for governments in Australia.

According to the new employment series just released by the Bureau of Statistics, some 1,629,100 persons were employed by governments in the June quarter 1983. This is 46,900 more than was previously thought. Most of the under-estimation was at State Government level.

About two-thirds of government employees work for the States and their authorities.

(2)General Government includes central, state and local government and their authorities but excludes nonfinancial public enterprises.
GOVERNMENT EMPLOYMENT

<table>
<thead>
<tr>
<th></th>
<th>000 Employees</th>
<th>% of Govt. Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth</td>
<td>408.3</td>
<td>25.1</td>
</tr>
<tr>
<td>State</td>
<td>1077.6</td>
<td>66.1</td>
</tr>
<tr>
<td>Local</td>
<td>143.2</td>
<td>8.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1629.1</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The burden of paying for the State public sector varies considerably between States, as the table below shows:

<table>
<thead>
<tr>
<th>STATE GOVERNMENT EMPLOYMENT</th>
<th>(per 100 private sector employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>N.S.W.</td>
<td>21.8</td>
</tr>
<tr>
<td>Vic</td>
<td>22.0</td>
</tr>
<tr>
<td>Qld</td>
<td>23.0</td>
</tr>
<tr>
<td>SA</td>
<td>26.0</td>
</tr>
<tr>
<td>WA</td>
<td>26.5</td>
</tr>
<tr>
<td>Tas</td>
<td>33.7</td>
</tr>
<tr>
<td>N.T.</td>
<td>33.9</td>
</tr>
</tbody>
</table>

The size of public sector employment must give rise to serious concern.

Employment levels in this sector often depend less on market forces than on the ability of special interest groups to win concessions from Government. As a result resources may be directed into areas which do not reflect overall community preferences.

And, as Dr Walker points out on page 72 of this Review, public sector employment growth can be self-generating.

As a result the government sector provides continuing pressure for ever-higher levels of taxation.

The IMF Report points out that government employment may not be subject to effective cost restraints. Ideally, employment in the public sector should be kept as lean as possible by the introduction of market forces, but where this is not possible there should be administrative checks and government restraints.

The figures released by the IMF give some indication that Australia is at an extreme in its failure to observe these restraints.

The high proportion of government employment in the workforce introduces a major rigidity into the economy. Tenured employment, reinforced by the power of public sector unions, means that change and innovation is difficult; and reductions in numbers almost impossible.

The IMF figures reinforce the fears growing in this country of "Big Government", and all it portends. Positive, even drastic steps, are now clearly needed to halt the alarming growth of the public sector. This is where Government efforts at "restructuring" should be concentrated.
Turning the Tide of Mediocrity
...recent trends in U.S. schools

by Peter Samuel

U.S. schools are now aiming at improved standards and the results are starting to appear. But efforts to achieve more diverse market-directed schooling are still being strongly resisted by educational bureaucracies and teacher unions.

What made America the world’s leading economic power and the magnet for the ambitious and the oppressed? My answer to that question has two parts — the freedom of enterprise and the popular passion for education. We deal with the second here.

A heap of statistical data indicates the steady decline in educational standards in the US between the early 1960s and 1980.

In the European tradition of which Australia is more a part, school is for children. In America there is a somewhat different attitude and I think it is reflected in the language. The noun “school” is used in an all-embracing manner in the US to include not only the primary and secondary institutions which we in Australia call schools, but also all manner of universities, colleges, technical training centres, academies and institutes that teach. It is very natural for adult Americans to say “I can’t make it Thursday night, I’ve got school”. That peculiarity of American English may reflect a more all-embracing attitude to education.

It’s a hackneyed cliche to point out that schooling is not education, because people develop and learn (the essence of education) from many other sources than their schools. Sceptics are liable to say “That is just as well” because the schools of America are so terrible, you learn precious little there.

Americans get a lot of schooling — an average of 13 years. My impression is that what Americans may lose in quality of education, they make up in quantity! Over a half of Americans go beyond the eleven or twelve years of primary and secondary schooling. How good is it? By the standard of international comparison, American education seems to come out somewhere in the bottom half of a ranking, grade for grade, of industrial countries’ educational achievements. By the standard of Nobel Prizes, that is taking the tops of excellence in research and learning, America is on its own. Its scholars dominate the Nobels in disciplines such as mathematics, chemistry, physics, economics. So by that measure, American education is unmatched.

The “National Commission on Excellence in Education” says American schools have been devastated by what it calls “a tide of mediocrity”. This is a rather uncontroversial conclusion because a heap of statistical data indicates the steady decline in educational standards in the US between the early 1960s and 1980. And frightening absolute levels of incompetence.
and illiteracy have been repeatedly reported in surveys of school-leavers.

The generally accepted measure of standards achieved by American schools are Scholastic Aptitude Tests (SAT) which have been given annually by Princeton New Jersey testing service to a nationwide sample of school children. They involve a verbal and a mathematical test. From the early 1960s until the late 1970s they showed a serious steady decline. Several things are interesting. The 1970s saw the worst decline. It was slightly greater on the verbal side (reading, writing, comprehension, etc) but bad on the maths side also. Since the late 1970s the SAT scores seem to have broken the downward trend, even if there is no clear sign of recovery in standards.

Schools standards seem to have bottomed in around 1980.

There is widespread acceptance in the US that the highest priority of schools should be excellence.

Now there is widespread acceptance in the US that the highest priority of schools should be excellence — raising standards of accomplishment by pupils in their core subjects. Therefore discussion focuses on ways of encouraging better teaching. Merit pay systems are being discussed and in a few places tried. There is a similar concept of creating the status of “master teacher” for outstanding instruction work. There is a great deal of effort to upgrade teacher standards by tougher teacher certification requirements. In places periodic re-certification is being demanded, with tenure abolished.

A major obstacle to all such schemes is the teacher unions. Teaching is one of the most highly unionized of America's industries and the teacher unions are among the most politicized and blood-minded. Strikes by teachers are probably the most common kinds of strikes in America. In return for low wages, America's school boards have generally been prepared to sign contracts with teacher unions providing for exclusion of non-unionists, unusual security, holidays and automatic promotion arrangements, and a union role in the administration of the teacher workforce. These labour contracts, which normally last three years, can in theory be renegotiated to provide for merit pay, selective promotions and dismissal for incompetence, but probably only with considerable difficulty and at considerable financial cost.

American Government education is administered by some 16,000 school districts, and largely financed by property taxes (rates in our language) so many basic decisions about education are made at a local government level — usually a county in rural areas and on the outskirts of a metropolitan area, a city, a town or a village. The picture is complicated by the varying roles of departments of education at the level of state and city government, and the role of the courts which exercise enormous discretion in interpreting laws and constitutional requirements and which are prepared to intrude in great detail in ordering 'remedial' arrangements (especially in race and handicapped issues).
Popular emphasis on standards and excellence in discussion of schooling in America in the 1980s is quite a striking change from the 1960s and 1970s, when schools were seen more as machines for social engineering.

The new public and popular emphasis on standards and excellence in discussion of schooling in America in the 1980s is quite a striking change from the 1960s and 1970s, when schools were seen more as machines for social engineering. They were going to eliminate racism (hence the court-ordered bussing of children, so that each school had the “right” mix of races). They were going to inculcate ethnic pride so schools were to be multi-lingual. They were going to eradicate poverty by programs supposed to favour the “disadvantaged”. The handicapped were going to be fully rehabilitated by special programmes. They were going to solve teenage pregnancies by teaching sex education and stop car accidents with car driving as a school course.

For the radicals, the schools were going to take us to a new, supposedly superior, social order governed by co-operation not competition, in which team work would replace individual achievement. Education utopians wanted to do away with ‘oppressive’ constraints, rules, punishments, demands and standards and to make learning an exercise in effortless joy. Experimentalism was a watchword and the school-without-walls was the physical symbol of this flight of fancy among self-styled ‘progressive’ educationalists in the silly ’sixties.

Tax Credits

The great push of free enterprise has been for tuition tax credits. President Reagan has given this vocal support but so far it has been rejected by the Congress whenever submitted. Tax credits would reduce personal income tax by the full amount of the school tuition fees paid, so would be a very strong incentive to fee-financed education. It would introduce to the primary and secondary sectors of American education the economic arrangements that prevail and are generally accepted in the tertiary education area — that fees are the primary source of funding, and the educational institutions have to be responsive to their customers to survive and prosper.

Whereas in Britain and Australia the churches in the nineteenth century put great effort into establishing independent schools, in America they put most of their resources into universities, and today the tertiary sector of education has a very rich mix of private, independent and foundation-supported universities which actually overshadow the state universities in most parts of the country. Primary and secondary education was relatively neglected by the independent sector. Until recently, state aid to independent schools in America was thought to be unconstitutional.

Still, despite an almost complete lack of state aid (Vermont is the big exception), independent schools are thriving. Their enrolments are about 5.2 million but rising, whereas government school enrolments are 40 million and falling.
Tax credits would reduce personal income tax by the full amount of the school tuition fees paid, so would be a very strong incentive to fee financed education.

An interesting fact is that the old stereotype of independent schools being well-heeled institutions for rich white Anglo-Saxons is no longer true. There are now hundreds of independent schools operated in deprived minority communities where the government schooling is at its worst. "Catholic" schools are increasingly attended by non-Catholic kids and in the New York diocese the Catholic school authorities report that a higher proportion of their pupils than in the community are black, Hispanics, and Asians. There has been an enormous increase (128 percent in 10 years) in enrolment in Jewish schools (many pupils are non-Jews) and considerable increases in enrolled numbers at Quaker and Episcopalian schools, almost none of whom would be denominational. Waiting lists to get into private schools, even one charging US$5,000 annually, are long.

If the enthusiasts for choice and excellence in education are eventually able to overcome the vested interests of the government school teacher unions and bureaucracies and get tuition tax credits through the Congress, the way will be opened for real improvements in the economic arrangements for American education. There still remain the larger social, cultural and political issues of what education is about once the basic skills are mastered. Many American schools, government and independent, are suffused with leftist propagandists and propaganda textbooks on such huge issues as war and peace, resources and the environment, and the legitimacy of the free market. Ordinary Americans who are usually religious people are appalled by the Supreme Court's ban on prayer in public schools, and that matter has served to symbolize a widespread feeling that schools don't teach values as they should and don't develop citizenship.

There is a widespread nostalgic attachment to the ideal of a local community public school, if only the educational bureaucracies and their regulations and the unionized teachers could disappear. And there is widespread belief that independent schools are somehow divisive. So change in the direction of more diverse, market-directed schooling is far from assured.

EDITOR’S NOTE
In Peter Samuel's article "Left-pack Journalism" in the Autumn 1984 issue, in the third paragraph page 51, we inadvertently omitted the words shown here in brackets:

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 euphemisms and rationalizations in which officials will (choose to present events. But my criticism of my colleagues is that they too) often suspend their professional scepticism when dealing with the left.
Tertiary Education — Missed Opportunities

...deregulation is necessary
by Professor Michael Porter

Australia's tertiary education sector is highly protected and over-regulated. It is inefficient and costly. Until the system is freed-up and allowed economic and intellectual independence, it will not realise its potential for students, and talented staff; nor will it realise our capacity to export knowledge to countries of our region.

Australia's advanced educational standards and stable political environment give us some comparative advantage in education and training. The fact that a large number of Australian students are Asian supports this argument.

But Australia is failing to fully capture all of the social and economic benefits which can arise from this comparative advantage in education and training. Many of these lost opportunities have to do with the over-regulation by governments of our education system.

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At the tertiary levels both in teaching and research Australia's education has been falling behind the United States and Canada. English, European and, indeed, Australian educational institutions have typically offered their teachers life-time tenure, have rarely charged fees, and as a result have ceased to produce the quality of education, particularly at the post-graduate level, which now characterises the North American universities.

We should simultaneously reduce the role of government in our education institutions and move towards the payment of fees corresponding to costs of education, using part of the sums raised to fund and introduce scholarship and loan arrangements for those in need. Where particular areas of study or research are deemed worthy of subsidy there should also be special scholarships; otherwise we should encourage choice of courses to be made on the basis of educational criteria and economic costs.

Educational institutions have a key role in promoting a liberal economic and social order. In addition, Australia is in a unique position to provide educational and training services of the highest quality in this rapidly growing and populous region of South-East Asia.

The regulation of tertiary education

The Australian educational process at the tertiary level is largely supply-determined, with the academics and educational administrators providing courses which in many ways fail to reflect demand or cost considerations. While it is clear that the bulk of educationalists are concerned to provide education of the highest calibre,
and while there are many examples of excellence and pockets of competition within the education system, the political rules of the game, as laid down in Canberra — in this case through the Tertiary Education Commission in consultation with Departments of Education — have produced a system which can be rigid and inflexible and a major source of inequality in our community.

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The evidence for the proposition that inequality is fostered by the current education system, and its financial arrangements, stems partly from the fact that on the "demand side", the beneficiaries of "free" tertiary education are typically from above-average income groups. And that on the supply side, those retaining job security as academics are less able than many of those knocking on the door.

The stagnation in student numbers in the 1980s, coupled with the surge of new appointments in universities and Colleges of Advanced Education over the last 15 years, have placed educational administrators in an invidious situation in which they can make virtually no new appointments unless staff choose or are chosen to depart.

In those fields in which academics can be attracted by market demands from outside, the rigidity of the university salary structure tends to encourage the departure of many of the most able. On the other hand, for those academics who are paid more than their "opportunity" cost (i.e., their alternative potential income), the effect of the uniform salary structure is to reduce the quality of academic staff below that permitted by university funding.

The salient features of the current tertiary regulatory structure can be summarised as follows:

• There is a fixed number of tertiary educational institutions funded by government, largely in proportion to student numbers.

• Programmes and degrees eligible for funding are determined centrally, with relatively minor scope for innovation.

• Fees are largely non-existent and student allowances are set centrally, do not vary across institutions and fail to reflect cost and demand considerations. Degree A may cost 10 times degree B but the student fees are the same in both cases, i.e., zero. Not surprisingly we get a chronic mismatch of supply and demand in different fields.

• The bulk of academic staff have tenure, with the exception of the relatively new appointees, many of whom are more competent than their tenured colleagues. There is no capacity to negotiate salary differentials (risk premiums) in exchange for security.

• Salaries are uniform within ranks regardless of demand considerations and almost regardless of performance.

• The bulk of research funds are payments by way of salaries to tenured academics to support their non-teaching time (at least 50 percent). Only a miniscule proportion of funds (perhaps 2 percent) is subject to competition.
There is no evidence that government is especially equipped to organise, manage and distribute educational services.

Many of the features of the current regulatory structure, e.g., tenure, have thoroughly sensible origins. It was and is vital that academic staff be free of short-term political, racial and other considerations which might influence their appointment or termination. However, other university systems, notably the United States and Canada, have found an in-between system in which tenure is negotiable after a significant period of apprenticeship and in which the salaries of tenured staff vary considerably, allowing the possibility, for example, of a tenured professor earning $35,000 and an untenured lecturer earning, say $60,000. This would certainly help create an educational system more relevant to our industrial and social needs.

An essential feature of any move towards deregulation of tertiary education is that universities be given the capacity to set fees on a basis which makes efficient use of their resources and which encourages students to make appropriate decisions regarding their education and subsequent careers.

The role of government

No one disputes that there are external benefits from education. We all gain from living in a literate and informed community, and so there may be a case for financial inducements and regulation such that all members of our society have the opportunity, and perhaps the obligation, to have at least some minimal level of education. However, this makes a case not for governments producing and distributing educational services, but rather for governments altering the financial terms on which individuals may obtain education.

If the community, through its government, wishes to influence the amount of schooling and tertiary education undertaken by its citizens, this makes a case for intervention in the financing of education, but not in its production or distribution. There is no evidence that government is especially equipped to organise, manage and distribute educational services. Indeed, the evidence that exists is quite the contrary, namely, that bureaucracies, lacking private incentives, tend to become lethargic and inefficient relative to enterprises in which the owners and managers have a vested interest.

Courses designed to meet the needs of fee-paying foreign students could be developed, without cost to the taxpayer but with benefits to our export earnings and employment in the tertiary sector.

To my mind, an interesting experiment within the tertiary system would be for governments to allow universities to impose any fee structure they see fit, with fees varying considerably across departments, and with, say, two-thirds of the revenue obtained by this fee structure to be retained by the university. If current government funding arrangements were unchanged then university funds would be increased, the government would receive one-third of the fees raised, and students would face more relevant signals regarding the costs of their private educational decisions. While this
"proposal" is a typical second or third best arrangement regarding the restructuring of education, it would nevertheless seem to be an innovation which is possible within the current tertiary system and which would start to bring a little bit of market into an overly regulated and government-dominated tertiary education system.

Such reforms allow more and better education at a lower cost to tax-payers. In my view Australia does not want or need less education or research. We want more quality education, and less constraints on educational efficiency and excellence. The current disaffection with the quality of our educational institutions should not be met with more public sector dollars but with less regulation and more incentives to innovate and excel.

Exporting education

Deregulation would enable universities and other educational institutions to exploit the comparative advantage Australia has in education and training. For example, courses designed to meet the needs of fee-paying foreign students could be developed, without cost to the taxpayer but with benefits to our export earnings and employment in the tertiary sector.

There has been considerable discussion in recent days on both Australia's immigration programme and on the reintroduction of fees for university students. The popular press has also been urging a rethink on policies towards universities, with suggestions of liberalising current regulations and introducing elements of competition. Furthermore the Commonwealth Tertiary Education Commission (CTEC) is now suggesting concepts such as the open university.

The Jackson Report¹ provides a sensible basis for the management of foreign students, recommending the use of fees payable to universities. The Goldring Report², on the other hand, fails to deal adequately with the issues of fees and regulation. It recommends that foreign students be largely exempt from fees. The Report is very much a bureaucratic approach with all the usual rigidities. For example, Goldring suggests that institutions limit foreign students to between 5 to 10 percent of enrolments in each tertiary institution. By contrast, Jackson favours fees for foreign students but freedom of choice.

Education could be a valuable export industry for Australia. Australian education is a product many people in other countries clearly wish to buy. The need to liberalise our economy is clearly recognised in other areas. It is time we began to apply these lessons to education.

¹Committee to Review the Australian Overseas Aid Programme, Report, Canberra, AGPS, 1984
²Committee of Review of Private Overseas Student Policy, Mutual Advantage, Canberra, AGPS, 1984.
The Current Attack on Private Property

...which is jeopardising Australia's prosperity

by Barry Maley

The traditional rights of owners to control their property have been eroded by the actions of governments and statutory authorities. These rights are being transferred to trade unions, government instrumentalties and other special interests. This destruction of property rights poses a major threat to our prosperity.

If we truly own something we can control its use. But, if somebody else acquires power of control, this means that our property rights have been whittled away and others can use their powers of control to dispossess us, but without taking responsibility for the obligations of ownership.

In the last ten years we have seen a huge increase in the volume of Federal and State regulations affecting commercial and industrial organisations.

Powers of control over corporate property and assets are being taken over by governments, trade unions and special interest groups. The capacity, and the incentive, to manage organisations efficiently through monitoring the effective use of labour and other resources are being removed from owners and management as they lose powers of control over such things as manning, selection of staff, retrenchment, and the closing of uneconomic enterprise. The "wages accord" and other "summit" agreements, rather than improving the situation, will exacerbate it.

The erosion of private property rights is forcing Australia further along the path of slow growth, high inflation, reduced investment, high levels of unemployment, and extension of trade union power.

Business enterprise

The transformation in the space of two hundred years of the peoples of Western Europe, and subsequently some other parts of the world, from relatively small populations of predominantly miserable, half-starving peasants into hundreds of millions of well-fed, healthy and relatively affluent citizens has been wrought in large part by business enterprise.

But this would not have been possible without well-formed laws of property and contract to provide a fabric of rights and firm expectations which profoundly affect economic behaviour through a structure of incentives and penalties. As we vary property rights, which is to say as we vary established practices and the expectations built upon them, so do we affect people's perceptions of likely rewards and penalties and therefore their plans and behaviour, including the use and allocation of resources and assets.
Recent trends

Business organisations now confront a radically changed social and institutional context. For example, in the last ten years we have seen a huge increase in the volume of federal and state regulations of all kinds affecting commercial and industrial organisations:

- the imposition of environmental and anti-pollution constraints on organisations;
- new requirements for equal opportunity and anti-discrimination to which organisations must conform;
- the imposition of price control in a number of areas;
- explosive growth in consumer protection procedures;
- new employment protection and redundancy provisions;
- major changes in the responsibilities placed upon employers for occupational safety and health;
- the revocation of freehold rights and mining rights, sometimes without compensation;
- the burgeoning of new and more extensive controls on land use and mining rights;
- the steady growth of formally negotiated and de facto powers exercised by employees and trade unions in determining work processes, recruitment, manning, level of output, discipline, etc. within organisations, not to speak of the continuing background of bans, strikes, strike threats and boycotts.

It is fair to say that in this period we have witnessed a very significant contraction of the freedom of action and powers of control by corporate owners and managers over the assets and resources of their organisations.

Special interest groups

The changes referred to above entail, among other things, a change in property rights.

There is virtually no enterprise in this country which could not be forced to close down by the organised exercise of union power.

They represent a dilution of powers of control (ownership) formerly held by owners, and their diffusion among governmental instrumentalities, special interest groups, employees and trade unions. The instruments have been legislation, negotiation (often under threat) and the de facto evolution of new practices for a variety of reasons. This transfer of rights has happened relatively suddenly mainly because of Federal and State statutory initiatives, and powers exercised by industrial commissions, which have overridden the stability, and therefore the substantial predictability, of common law precedent. One important effect of this process is to undermine confidence in contracts and therefore investment, especially investments with long lead times.

The erosion of property rights reflects in part the success of modern movements — feminism, consumerism, environmentalism, etc. But these recent developments take their place with more venerable interests whose earlier organisation gave them a head start — industry associations, protected industries and government — guaranteed monopolies, farmers, the professions, and hosts of other "distributional coalitions", the combined effect of whose actions is
often to make the whole process of production and distribution of goods and services less efficient and more expensive.

In the present context, trade unions are the most important offenders because of the organised powers they wield and the widespread consequences of the immunities they enjoy. Of these powers, the most significant are the strike weapon and the threat of its use, and labour monopoly.

There is virtually no enterprise in this country which could not be forced to close down by the organised exercise of union power and if that power were used there is no likelihood, under present circumstances, that any penalties would be visited on the agents or any compensation provided to the victim.

The Accord

A feature of the Accord is an agreement to enhance and extend the powers of the trade unions and their formal role in the management of the economy. The current moves to abolish penalties against unions involved in secondary boycotts under the Trade Practices Act represent a further enhancement of union powers and an example of the process of selling indulgences for sectional votes. But even where penalties still remain on the statute books or in the Common Law, they are usually of no consequence because of the threat of union retribution if they should be imposed.

The possession of these powers and their use over the years has been the foundation for the steady growth of various work practices and legislation which significantly move control of the organisations and calls over their assets away from the nominal owners and into the hands of unions, employees, industrial commissions, governments and courts. The position is by no means uniform from one organisation or industry to another, but the general trend is unmistakable. A few examples follow:

A feature of the Accord is an agreement to extend the powers of the trade unions and their role in the management of the economy.

The High Court has ruled (in connection with the one-man buses issue) that manning is a management prerogative. Nevertheless, this prerogative is often unenforceable:

- Since 1945, the Federated Ship Painters and Dockers Union has operated a roster system whereby the union selects the labour to be employed. On petition from a ship-builder in 1978 the Arbitration Commission granted exemption from the award stipulating that labour be picked up from the roster. A 16 week strike followed, and the employer capitulated rather than lose a ship-building tender, and accepted union-chosen labour.

- The building of the Sydney Entertainment Centre was marked by a series of disputes, often over questions of job control and discipline. A carpenter, sacked for insubordination, was reinstated by the Arbitration Commission after a seven-day strike.

- Appointment of tradesmen in the printing industry must be made through the union office. The practice has been declared illegal by the courts, but continues.

Just as significant as the weakening of the monitoring role which those protecting their own assets have an incentive to perform is the conversion of those assets, and the diminishing surplus from their use,
into benefits for workers and taxes for governments; taxes which are then used for vote-winning transfer payments. Going along with this is the ever-widening scope of government regulation of enterprise which adds to costs and an expanding bureaucracy. All of this reduces or destroys enterprise surpluses available for private investment and employment-creation and erodes control over remaining assets.

Bankruptcy may be the outcome. For instance:

- Government price controls in the pharmaceutical industry had meant, according to the president of the Australian Pharmaceutical Manufacturers Association, that a number of companies have “found it impossible to continue research, employment and investment on the same scale. Many others would be following suit, with at least another three companies closing manufacturing plants in Australia this year unless the situation was redressed”.

- The Managing Director of Utah Development Company has said that the major obstacle confronting the company’s efforts to remain internationally competitive had been the continuing high level of taxation on the coal-mining industry. The company was producing four million tons less than its capacity.

- The Sydney Morning Herald reported on April 13, 1984 that workers’ compensation costs had jumped by 36 percent to almost $1 billion in the year ended June 1983 and that “the insurance industry is concerned that State and Federal governments might push for the creation of a government monopoly or single insurer scheme, to take over all workers’ compensation”.

An ironical consequence can be that enterprises and industries pushed to the verge of extinction by wage costs, regulation, taxes and government charges, may then be accused of “inefficiency” and “market failure” for which the only remedy is further government control.

Enterprises and industries pushed to the verge of extinction by wage costs, regulation, taxes and government charges, may then be accused of “inefficiency” and “market failure”.

The coal industry is again a case in point. Australian suppliers, operating in a weak coal market, have had to accept lower prices from Japanese negotiators. This means that less efficient mines will have to close, under the present cost structures, and retrench workers. Apart from wages, government rail transport costs, said to be the highest in the world, are an important factor. It has recently been suggested that a possible government response might be the formation of a “coal marketing authority” to exercise general control over the selling activities of mining enterprises. And this in addition to Federal Government powers — exercised in the past — to absolutely forbid the sale and export of mined products! It is only a short step from this (a step taken years ago in Britain) to a government takeover of the industry as a whole. Indeed, in N.S.W., the government has revoked freehold property rights in coal lands without any offer of compensation.

What has been happening, in the variety of ways outlined here, has been a steady
erosion and diffusion of rights of ownership and control which has three main consequences:

- diminishing value of private productive assets and the incentive to invest in them;
- increasing uncertainty over the ground-rules covering productive enterprise and the stability of formal and implicit contracts;
- weakening of the connection between taking an organisational decision and suffering, or enjoying the economic outcome of that decision.

It is in this sense that one may begin to talk of expropriation in this country, given the infrequency of its more dramatic manifestations in outright seizure or nationalisation. So, in the absence of legal powers to control the capital and assets of others, unions in this country nevertheless have the de facto right to force owners and managers — via the strike threat or labour monopoly — to use their assets in ways which act against the interests of the owners and consumers.

Unions in this country have the de facto right to force owners and managers — via the strike threat or labour monopoly — to use their assets in ways which act against the interests of the owners and consumers.

As such moves succeed, it means that some capital which might otherwise be diverted to more productive purposes elsewhere is lost. The owners have lost part of what they own and society is worse off because those who effectively control the use of that capital have used it badly.

In any society the well-being of its citizens depends, ultimately, on using the nation's assets and resources as efficiently as possible in meeting the widest range of needs and demands. By any measure, the capitalist societies have been the most successful in solving this problem. But that success depends absolutely on maintaining the link between owning assets and having the right to control them effectively under fair and steady laws.
Risk-taking and the Resource Rent Tax

by Professor Ray Ball and John Bowers

The Australian Government has introduced a new tax on windfall profits made by resource companies. Called the Resource Rent Tax, it is described by the Government as “the most efficient mechanism for deriving for the community an appropriate share of the large returns that can be associated with the development of particularly rich mineral deposits”. This article reviews the Resource Rent Tax.

We cannot evaluate the effect of the RRT scheme with great precision. However, we do believe that it will have a marked effect on risk-taking in the Australian resource industries, particularly on exploration activity. We envisage investors reacting adversely to the political philosophy of the RRT, its structural bias against risk-taking and its ungenerous view of an acceptable return for risk-taking.

The notion of a Resource Rent Tax (RRT) surfaced in the mid-1970s, received support from the then Prime Minister and endorsement by the then Labor Opposition, and has become a centrepiece of the present Government’s policy towards the resource industries. The Government has announced the implementation of the RRT, effective as of 1 July 1984, on offshore petroleum projects that are licensed on or after that date. In all likelihood, the Government will attempt to extend the coverage of the RRT onshore and to resources other than petroleum.

How the RRT works

The RRT is a tax levied on the net assessable receipts from individual projects. While companies (and ultimately their owners and/or consumers) pay the tax, it is levied separately upon each of their projects, not on the company’s total income. The company income tax is not an allowed deduction for RRT purposes, but RRT payments are deductible for company tax purposes.

The RRT initially was designed to tax what economists call “economic rent”, a notion that is similar to a “windfall profit”. A rent in economists’ parlance is the difference between an investment’s return and the minimum return that would make that investment competitive. It is an extra-competitive return. The minimum competitive return, called the “threshold rate” in the RRT context, could be thought of as the Government bond rate plus the going market rate for bearing the investment’s risk. The RRT is designed to not tax a project unless it earns more than the threshold rate.

The threshold rate has been set initially at the long-term Government bond rate plus 15%. This currently amounts to approximately 29%. Thus, whenever a project’s cumulated net assessable receipts to date imply a return in excess of 29%, the payment of RRT is triggered. If they do not rise above 29%, or subsequently fall below 29%, then the RRT is not paid.

In response to the industry, the Government has modified its original proposal in some respects. For example, it now allows a deduction for RRT purposes of exploration expenditures in the project...
area over the five years prior to the granting of the area's first production licence. Possible future "offset" allowances might include the costs of closing down a project.

The list of rules for calculating the RRT payable is short in comparison with those for the personal and company income taxes; but those taxes have had many years' headstart.

The theory behind the RRT

The novel structure of the RRT is due to its academic background. It was first proposed by Ross Garnaut and Anthony Clunies Ross, who were working at the New Guinea Research Unit of the Australian National University and the University of Papua New Guinea, respectively. The Papua New Guinea Government subsequently introduced a tax following this pattern, called the Additional Profits Tax. Garnaut since has become economic advisor to the Australian Prime Minister.

The objective of Garnaut and Clunies Ross was to design a tax that would have little effect on production and investment decisions, while raising as much revenue as possible. They reasoned that if the Government taxed the "economic rent" of each resource project, then the tax could never cause a desirable investment to become undesirable in the eyes of the investor. Because "rent" is defined to be the return earned in excess of the minimum need to make an investment attractive, taxing rent means that the Government and the investor would simply share the rent — any project that had a positive excess return before the RRT would still have a positive (though smaller) excess return after RRT.

Whether this has been designed into the actual RRT implemented by the Australian Government is another matter.

What effect will the RRT actually have?

This question can be broken down into at least four parts. First, what effect would a tax with this novel structure have upon investment decisions in the resource areas? Second, will the RRT replace old taxes that are structured in different ways or will it end up being an additional burden? Third, how high is the tax rate? Fourth, how reasonable is the allowed "threshold" rate?

The structure of the RRT

In an academic paper published in the Australian Journal of Management, we argue that the RRT really is not a tax on "economic rent" but essentially is a tax on risk-taking. We stress the need to evaluate the effect of the RRT by thinking of its effect on the range of possible payoffs faced by the investor, at the time of committing investment resources.

The RRT is essentially a tax on risk-taking.

There, typically, is a considerable prospect, at the outset, that a project will earn a negative rent: that is, less than the minimum acceptable return. Since the Government does not intend to pay RRT refunds on projects that earn negative rents (or even allow companies to sell RRT losses or offset them against RRT profits from other projects), the Government stands to share in all instances in which returns turn out to be more than acceptable; but it will not share when they are not. The formal structure of the RRT therefore is strictly analogous to that of a call option, exercisable by the Australian Government, on the economic rent of each and every project. If the project turns out well, the Government will share in its good fortune. If the project turns out poorly, then the Government elects to not participate in the
payoffs: to let its option expire. From the viewpoint of the investor, the asymmetric treatment of positive and negative “economic rents” means that the Government in essence has expropriated a call option on the “economic rent” created in each and every project.

The RRT will have its greatest effect on the riskiest projects, the riskiest commodities, and the riskiest marketing and sales methods.

It then is possible to use option valuation technology, due to the financial economists F. Black and M. Scholes, to evaluate the effect of the RRT on investment decisions. In general, the effective incidence of the RRT will be higher than the RRT tax rate. For example, a 50% tax rate could imply an 80% or 100% impost. One well-known result in option valuation theory is particularly relevant: the riskier an investment is, the more valuable it is to have a call option on that investment. This holder of a call option can enjoy the “upside risk” and not the “downside”, so the more risk the better. This means that the RRT will have its greatest effect on the riskiest projects and project phases, the riskiest commodities, geographical areas and production techniques, and the riskiest marketing and sales methods. When the investor looks at all the possible outcomes, as seen at the outset, the RRT has the Australia Government taking a proportion of the “upside” risk only — a proportion whose value increases with risk.

Longer-term projects would also tend to be penalised, because more typically can happen in (say) five years than in one year. Oddly enough, marginal projects, whose expected returns are barely enough to make it worthwhile to take the risk, are the most vulnerable to the effects of a windfall profits tax. Anything that reduces the possible profits may be enough to scrap the project before it even begins. This demonstrates the fallacy of trying to calculate the effect the tax would have had on projects that are already successful.

It is also important to note that exploration, while usually the riskiest phase of a resources project, is by no means the only risky phase. All investments are exposed to commodity price risk. For example, a company facing a choice between an innovative but untried extraction technique would find its NPV calculations skewed against innovation and in favour of known but possibly less efficient production methods. Even sales contracts would be affected by the RRT. Long-term contracts with escalation and arbitration clauses are safer because they pass some of the risks onto the buyer. In doing this they reduce the effective incidence of the tax. In general, windfall profits taxes discourage the search for windfalls and discourage risk-taking.

Having become aware of this problem, the Government has modified its original proposal, by allowing a deduction for prior exploration in the project area. However, this falls way short of the type of loss-offset system, or systems for allowing the sale of RRT losses, that would be required for the RRT to cease its discrimination against risk-taking.

The fate of other taxes

Originally, the RRT was meant to replace other taxes. In announcing the RRT, the Government announced the abolition of its royalties (10-12.5% of net wellhead value) in favour of the RRT. But
will they creep back in some later budget? And can the States be persuaded to give up their existing sources of revenue in favour of the RRT? For example, would the Queensland Government accept a periodic audit of its freight charges by the Australian Government to determine whether they constitute an indirect means of taxing resource wealth? At what price would the States sell their autonomy and sovereignty?

**It would be a brave investor who forecast that no future Australian Government will be tempted to increase the RRT rate, because budgets are going to become more difficult to balance over time.**

We are unsure of the answers to these questions. However, the questions do raise our suspicions that the implementation and the effect of the RRT would be shaped by political rather than economic criteria. If this turned out to be the case, then the RRT would merely add one more degree of freedom to the political process in taxing the resource industries.

**The RRT tax rate**

The RRT rate, at least at the outset, is more modest than it might have been. The initial rate is 40% but, because the RRT is deductible for company income tax purposes, the net effective rate is in the order of 22%. Some had feared worse. How long it will stay that way is another matter. It would be a brave investor who forecast that no future Australian Government will be tempted to increase the RRT rate, because budgets are going to become more difficult to balance over time.

**The threshold rate**

Given the structure and stated objectives of the RRT, the threshold can be interpreted as what the Government holds out to be an acceptable return to investors in resource projects. It has been set to the long-term bond rate plus 15%; currently, this is about 29%. Because the 46% company tax has to be deducted after paying RRT, the Government therefore is saying that approximately 15.7% is an acceptable return in Australia to investors in resource projects. This is only 1.7% above the bond rate.

In earlier versions of the RRT, the Government proposed a threshold that was 5% lower, implying an acceptable return to resource investors of approximately 1% less than the government bond rate.

Given the relatively high degree of risk borne by resource investors, the threshold rate seems extremely ungenerous. A windfall profits tax that is triggered at such a low level implies a view of what constitutes a “windfall” that differs from ours. This ungenerous attitude toward risk taking could well be a negative signal to investors in its own right.
The Welfare Debate:
...missing the real issues
by Alec Simpson

Expenditure on age pensions as a share of the social security Budget has dropped from 47 percent ten years ago to 32 percent in 1983/84. Alec Simpson argues that the main reasons for the explosion of welfare spending are all but being ignored.

In the three years 1980/81 to 1983/84 the age pension budget increased by 36 percent, the smallest increase of all the welfare categories. The principal blow-outs occurred in unemployment (198 percent increase) and supporting parents' benefits (117 percent increase).

Furthermore, projections of increases in beneficiary numbers for the next three financial years indicate increases of 33 percent for service pensions (the World War II bulge), 28 percent for supporting parents, 17 percent for invalid pensions, but only 7.5 percent for age pensions. (Unemployment benefits show a welcome flattening out — albeit at a high level — with an increase of only 2 percent).

While eligibility for age pensions has been tightened, the Government has taken a number of initiatives to ease eligibility criteria and increase entitlements for some other social security beneficiaries.

Notwithstanding these recent past and future trends, the terms of reference given to the Panel of Review of the Proposed Income and Assets Test invited Professor Gruen and his panel to have regard to "the demographic fact of the ageing of the Australian population".

In the last three years the aged pension budget increased only 36 percent — the smallest increase of all the welfare categories.

The panel did, indeed, consider the demographic facts and concluded that "the panel does not believe that the ageing of the population over the next 30-40 years will create any insupportable 'burden' for the community".

Is demographic ageing a problem?
The Government implied it is; the panel did not agree. Which is right?

A recent actuarial study prepared for the Commonwealth Government shed some light on the question. It assessed future real percentage cost increases of the age pension relative to 1981 as: 15 percent (by 2001); 30 percent (2011); 60 percent (2021); and 84 percent (2030).

The percentage rate of increase indicated is certainly "affordable" until 2001, probably so until 2011, but it escalates markedly in the decade to 2021, and then eases off only slightly in the decade to 2030.

Thus demographic ageing should be no real problem to 2001, begin to emerge as one to 2011, and become a major consideration thereafter.
This deduction seems logical when one considers the reasons for this shift in the population balance: the ‘baby boom’ generation of the late 40s, 50s and 60s starts moving into retirement after the turn of the century; the situation will be aggravated because they will then be supported by a much reduced workforce arising from the substantially lower birthrates since the mid-70s.

It is claimed, with some justification, that anyone aged 45 and over is too far down the track to retirement to be asked to accept major changes in retirement arrangements; indeed there is no need to impose substantial changes on them — at least for demographic reasons — and certainly not on those already in retirement.

Conversely, those under age 45 need to be persuaded in the clearest possible terms that they should not rely on being able to live on a welfare age pension when they retire, but must take steps now to make their own retirement provisions.

Unfortunately, the Government’s recent initiatives will probably reduce the incentive for these younger people to make such provision through savings and thrift throughout their working lives.

The blow-out in other areas of welfare

In view of the reduced component of the social welfare budget attributable to the age pension in recent years, and of the apparently ‘affordable’ burden to the end of the century, it may well be asked why a test, theoretically applicable to all pensions and benefits, but likely to affect the aged almost exclusively, is now being introduced.

A revealing section of the Gruen report states: “There are too many needs not being met. The unemployed, sole parents, the handicapped and low income families all need improved income support and more appropriate services”.

Perhaps this is the reason: reduce (or withdraw altogether) the pension from the aged who do not ‘need’ it, and transfer the savings to welfare recipients of working age.

Two-thirds of the increased expenditure on welfare during the last decade has been caused by the increasing dependency on welfare among people of workforce age.

A recent study (1), whilst concluding, as was done above, that demographic ageing constitutes no problem until the turn of the century, and perhaps not until 2011, stressed that its projections took account solely of population changes, and assumed all other factors remain the same.

But all other factors are not remaining the same. As pointed out in the last IPA Review, over two-thirds of the increased expenditure on welfare pensions and benefits during the last decade has been caused by the increasing dependency on welfare among people of workforce age.

As indicated above, the cost of unemployment and supporting parents’ benefits has escalated in recent years, and indications are that the number of such beneficiaries will continue to increase over the next few years and beyond.

A further ‘straw’ that is helping to break the welfare ‘camel’s back’ is the continuing trend towards early retirement. Some 600,000 persons aged 50-64 are effectively retired and receiving pensions and benefits (e.g. service, invalid, unemployment, and widows) adding about 40 percent to the pensioner numbers aged 65 and over.
It is frequently argued that the escalation of numbers in these welfare areas is a product of the economic recession, and will subside as recovery occurs. This is to some extent true, certainly in the case of the unemployed, but probably only to a much lesser degree with early retirees and supporting parents.

However, attitudes born of the recession will, it is feared, continue and more people will avail themselves of the welfare option, particularly if real levels of pensions and benefits are increased without tightening eligibility criteria.

The Bureau of Labour Market Research has issued a timely warning in respect of early retirement (2): "In any future period of labour shortage it may be desirable to encourage workers to remain in the workforce. It may then be very difficult to revert to prior attitudes regarding retirement age".

While extensive studies have been carried out on potential costs of age pensions, there is no Government study which makes projections of the possible costs resulting from the increasing dependency on social security among people of workforce age.

Will the numbers of pensions and benefits paid to this group continue to increase at rapid rates? What policy options are available to reduce escalating social security costs in these areas? These types of questions are simply not on the current political agenda.

Conclusion

Looking at the next twenty years, until the early years of the new century, demographic ageing should present no great difficulties. Where the problems will arise (and already are) is with the rapidly increasing number of welfare beneficiaries of working age: the unemployed, unmarried mothers, deserted wives, and those who are availing themselves of welfare-supported early retirement. Some curtailment of welfare in these areas must be introduced if the aged are to be adequately cared for.

During the first 20 to 30 years of the next century, demographic ageing will develop quite rapidly. Even then it need not be an insupportable problem to provide for the aged, provided steps are taken to develop long-term answers to Australia's income security problems, as has been recommended in the Gruen report.

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(2) Labour Market Participation of Older Ages: Policy Implications (Bureau of Labour Market Research)
An ‘Alternative’ Media Studies Reading Guide
by Dr. Ken Baker

Media studies courses in Australia are hindered by the lack of an academically sound body of literature. There is, however, extensive research, much of it produced overseas, which offers a more realistic view of the media.

There are two main competing schools of political thought in media studies. Each works with different assumptions and arrives at different conclusions about the influences at work in media organisations and the nature of bias in the content of media output.

The neo-Marxist school, dominant in Australia, argues that the media are servants of big business and conservative political forces and that, as a consequence, in their reporting of events, they display a pronounced bias against unions, the ALP, feminist issues, socialist countries, environmental issues, peace marches, etc. Some of this literature is critically reviewed in ‘The Politics of Media Studies’ (IPA Review, Summer 1984).

The emergence of a second school of media criticism has done much to highlight the unrealistic nature of the theories propounded by the neo-Marxists: among other things, their failure to recognise the interests and power exercised by journalists, their complete misreading of the role of the media in a democratic capitalist society, their failure to acknowledge that the media produce ideologies to justify their own institutional interests and that these interests may be in conflict with the rights of business, government and individual citizens.

The content of the media is determined far more by the values, ambitions and interests of journalists and editors, than by the ideology or the interests of big business.

Media critics overseas, such as Paul Johnson in the U.K., Irving Kristol and Richard Grenier in the U.S., and in Australia, Anthony McAdam, have argued for a more realistic view of power in the media and a more systematic approach to the analysis of bias than that evident in neo-Marxism.

The picture of the media that has emerged from this new ‘realist’ school of criticism holds that the content of newspapers and radio and television programmes is determined far more by the values, ambitions and interests of journalists and editors than by the ideology or the interests of big business.

The predominant values among journalists, it is argued, tend to favour the policies and parties of the political left. Reporting tends to reflect suspicion of the free market, for example, while ignoring the power wielded and privileges accumulated by public service bureaucracies. It tends to
treat America under Reagan as the chief threat to world peace while underplaying the Soviet military build-up. It tends to approach ASEAN countries with distrust and treat anti-communism as a form of paranoia while blandly overlooking the imperialistic ambitions of some socialist countries. The hardships experienced by welfare recipients are stressed, but welfare abuse is virtually ignored. Environmental issues are highlighted, while the benefits of mining are downplayed. In short, it is the 'left agenda' which receives the most media attention.

Both the neo-Marxist and realist schools assume the existence of points of conflict between the interests pursued by the media and the public interest, although each has a vastly different understanding of where this conflict lies and of the nature of the public interest.

There is a contrary stream of thought, often propounded by media organisations, which assumes a perfect coincidence between the interests of the media and the public. Apologists of this position argue that the right of the media to pursue and report whatever stories they want — usually justified in terms of the public's right to know — is always the overriding value. They claim that this right, although it carries obligations for governments and other institutions in a democracy to preserve the freedom of the media, carries few corresponding obligations for the media. Several of the critics reviewed below question this claim.

Most media analysts would be aware of the danger of over-simplifying complex and diverse patterns in the media. Nevertheless, both schools believe that useful generalisations can be made about the way issues are selected and reported, particularly those relating to current affairs.

The presence of persistent bias either of the right or the left has serious implications for the working of democracy.

What is undeniable is that the presence of persistent bias either of the right or the left does have serious implications for the working of democracy. The media have an impact on public opinion and, perhaps even more important in the short run, they provide information, ideas and images which can influence decisions made by community leaders.

The writers listed below belong to the realist school and as such represent a long overdue questioning of the neo-Marxist assumptions dominant in media studies.


This study of bias in America's most watched news service is one of the most important studies on the media produced in the last decade, both for the range of methodological techniques it develops, and for the conclusions it draws. Lefever's findings demonstrate an overwhelming bias in CBS reporting of defence matters. For example, against 141 minutes during 1972-1973 spent on problems in the US military, such as racial and sex discrimination, drug abuse, US violations of the rules of war, etc, only 1 minute was spent directly comparing US and Soviet military strength. This led, as Lefever notes, to the absurd situation where the viewing public was given no basis to assess the merits of arguments for...
increased US defence spending to counter Soviet military might. Lefever's book includes an illuminating chapter on newsworthy items that CBS failed to report, most relating to the expansion of Soviet military strength. CBS failed, Lefever concludes, both to keep the public properly informed and to fairly reflect the range of viewpoints on defence issues present in the community.


This study is based around extensive interviews conducted with almost 200 Washington journalists. Hess argues that in recent decades control over content has shifted from proprietors to editors and that "the editors, in turn, are losing control to the reporters". He identifies a number of factors underlying this shift, including:— the transfer of corporate power from politically motivated proprietors (the Hearsts and Beaverbrooks) to corporate managers unconcerned with ideology and the increasing size of media organisations making centralised control problematic.

Further findings of interest include:—

• 69 percent of stories were initiated by reporters, 11 percent by the home office and 10 percent by bureau chiefs.
• over half the stories by reporters were not edited at all in the home office, and only 3 percent were substantially edited
• slightly more than half the reporters polled detected political bias in the Washington media output. Of those, 96 percent thought this bias was left-liberal, 1 percent thought it was conservative
• 92 percent rated pack journalism as a problem in their profession

‘Media and Business Elites: Two Classes in Conflict’, The Public Interest, Fall 1982.

A major gap in media research in Australia concerns the values of journalists.

These two articles are based on a survey of 240 journalists from America's major newspapers, magazines and television networks. Rothman and Lichter found that, in general, journalists "strongly sympathise with the economic and social policies developed by the left-wing of the Democratic Party during the 1960s and 1970s. They are also suspicious of and hostile toward business, are far more critical of American institutions than are businessmen, and are much more sympathetic to the "new morality" that developed in the 1960s". Attitudes revealed by the survey include:

• A majority of journalists believe that America causes poverty by exploiting Third World nations.
• Never less than 80 percent supported the Democratic candidate in the last several Presidential elections.
• Most thought that black leaders, intellectuals, feminists, and consumer groups should have more say in setting the nation's political agenda. Most also thought that in the ideal society the media would wield the most influence of any leadership group.


For two years McAdam has written a regular column in Quadrant, challenging
mostly through case studies — what he sees as the dominance of left-wing ideology in the media. He argues that journalists are best viewed as part of the so-called ‘new class’ of educated professionals whose rise reflects in part the rapid expansion of the universities and particularly the social sciences and humanities in the 1960s and early 1970s. The rising influence of the new class, defined culturally by a shared antagonism to the free market, a belief that ‘the superpowers’ — the Soviet Union and America — are morally equal and the espousal of moral permissiveness, has been accompanied by an increased moral timidity within the older business establishment. The businessmen who own newspapers which disseminate predominantly anti-capitalist ideas exemplify this renunciation of cultural leadership, McAdam argues.


Clutterbuck examines the responsibilities of the media in their coverage of industrial disputes, political demonstrations and terrorism. In each case the author’s principal concern is with the question: has the way in which the media covered this event restrained or encouraged violence? Clutterbuck’s point is that if the media fail to take this question into account they ignore the dependence of the freedom they value on the maintenance of democratic institutions and the rule of law.

He is particularly critical of the gullibility and opportunism of sections of the British media in their coverage of violence in Northern Ireland. For the sake of a good story journalists have been prepared to play into the hands of terrorists who rely on publicity for propaganda purposes. A case in point is the interview given by the BBC to one of the murderers of British MP, Airey Neave. Indeed, Clutterbuck suggests that this major publicity coup by the terroristic INLA may have been a major factor in the IRA’s decision to match it by murdering Earl Mountbatten.

‘How to Lose a War’, By Robert Elegant, Quadrant, December 1981.

The central question Elegant asks is: Can a democratic nation succeed in achieving its foreign policy objectives if the media are overwhelmingly hostile to those objectives? Elegant’s essay is important for its description of the strong pressures to conformity — “an insidious collegiate atmosphere” — operating among groups of foreign correspondents, and for its account of the antagonistic attitude to the US military presence in Vietnam among journalists. Elegant argues that the Vietnam experience moulded the values of a generation of foreign correspondents and that the same anti-American ethos present in Vietnam can be detected more recently in the reporting of El Salvador.


Media analysis in Australia tends to deal with specific instances of bias. This research, however, uncovers a pattern of bias based on a content analysis of sixty programmes of economic, social and political analysis broadcast by the ABC over a period of four months. Of the programmes monitored, half were found to promote the goals of the radical Left, whereas only a quarter raised topics of significant concern to the Australian community (based on opinion polls). Only two out of sixty programmes dealt with issues of particular interest to libertarians, an increasingly influential school of economic thought in Australia. The author argues that a significant section of ABC
Radio's analysis of current affairs contradicts the ABC's official guidelines on balance and impartiality as well as ignoring recommendations of the Dix Inquiry. The article concludes by pointing out that the Board of the ABC has a clear responsibility to remedy this situation.


This article examines the merits of the Reagan Administration's decision to ban journalists from the initial stage of US intervention in Grenada. The Administration clearly believed that given the recent history of media antagonism to US foreign policy, particularly regarding Central America, to invite the media along would have jeopardised the success of the campaign. What ought to give rise to serious soul-searching within the media, Sussman writes, is that the Administration's assessment is widely shared among the American public. Indeed, he argues that the Reagan Administration would not have dared exclude journalists from Grenada if public confidence in the media were not at such a low ebb.

He concludes that the well-being of democratic nations requires not only that the media be relatively free from interference, but also that they recognise their obligations to take into account the effects of their public affairs reporting on national security and the functioning of political institutions.


The contributors to this volume focus on the decline of serious journalism and the rise of 'adversary journalism'. The motivating sentiment of the new journalism is hostility to authority and established institutions. Although a feature of the mass media, adversary journalism, Kristol argues, does not pander to mass tastes. On the contrary, it spends most of its time trying to force people to have attitudes they don't want to have... on politics, on sex, on military matters and so on. He argues that since this adversary journalism can create nothing, it has to self-destruct.

Michael Ledeen points to the lack of effective checks over journalists. He believes that the British Weekly, The Economist, has attained a high reputation because its editors 'actually read what the journalists send in and if its junk they don't print it. This practice would be absolutely unacceptable in a major American newspaper'. Editors who 'edit' are liable to be accused of tampering with the freedom of the press.


Opinion polls indicate that the media have a very low confidence rating among the public. Clark, a newspaper publisher, suggests this credibility problem reflects a major gap between the values of most journalists and those of the population at large. "We approach the events we report with a different set of expectations, hopes, fears and dislikes than a very large number of readers". Clark labels the world view of the public 'realist', and those of many, particularly younger, journalists 'idealist'. He analyses the contrasting perceptions on social change, conflict and authority. Realists, for example, believe that self-
interest is inherent in man; idealists believe that it can be eliminated by transforming the social system. He links the gap between the values of journalists and the public in part to the absorption of radical social philosophies by journalists when attending college.

Further Reading:


Innovation in Political Communication

...Premier Cain’s media unit

by Dr. Tim Duncan

Despite serious internal party difficulties and problems in some key areas, the Victorian Government has effectively conveyed a positive message about its record to the electorate. The principles of communication it has developed hold lessons for all Governments and Oppositions.

Even at the State Government level half-a-million dollars is chicken-feed these days. That’s what Premier John Cain’s media unit costs Victorian taxpayers, and for the Government this investment has yielded political gold.

Consider what it does. First, it provides a unified front of propagandists whose job it is to influence journalists. In fact, a number of the unit’s staff are both charming and competent people, and that creates all the more of a problem for those who deal with them regularly.

Second, it constitutes a single front of newsmakers with the task of determining the rhythm and the order of State Government news. It is not hard to see the political advantages of the media unit’s internal orientation. Those politicians trying to excuse what they did not do in government often talk of being obliged to continually put out bushfires. That’s what the media unit is for. It often burns fire-breaks so that bushfires do not get out of hand in the first place.

Third, it serves as a centralized control point for the dissemination of Government news. Ministers are sometimes allocated media unit “minders” whose job it is to see that they do not step out of line. Departmental recommendations often go via the media unit for corporate vetting before they see the light of day as ministerial ‘initiatives’. Because media unit staff may be rostered on to numerous portfolios at once, and because their rosters change, the loyalties of the publicists are directed to Cabinet before individual ministers. The press releases, and for that matter the ministerial briefings prior to interviews, overshadow an individual minister’s style with the general concerns of the body corporate.

Reporters who cover the full range of portfolios thus find themselves listening to a similar message from a score of mouths. It goes like this: Victoria is still suffering from the sins of 27 years of incompetent
Liberal rule; Victoria has invigorated its tired bureaucracy with exciting, unprecedented management techniques; Victoria is leading the nation's recovery from recession. For the last twelve months this Holy Trinity has hovered over the living rooms and the breakfast tables of Victoria.

The point is not that the Holy Trinity is a fraud. Few will deny that the Liberals lost their way. Few will accept that the Victorian Public Service was a trail-breaker. Few have forgotten the depths of the State economic crisis during the 1970s. Equally, few know much about public service management techniques, and many are not convinced that Victoria is leading in anything much except the short-term joys of high public spending. The point is that the Holy Trinity, as a positive expression of corporate achievement, successfully masks the many areas where the Cain Government has little to say.

When Victorian voters ask themselves what the Cain Government has done in its first term, they will have a general impression of progressive intent to latch on to. Without the Holy Trinity they would more likely be scratching their heads. Without the media unit the Cain Government would not have been able to hammer home from all points its three-pronged version of reality.

How does an Opposition grapple with such an effective tool as the media unit? So far, the Liberals have blamed journalists for listening to it, or blamed the government for setting it up. The strategy has not won them many points, first, because it smacks of sour grapes, and, second, because the complaints merely confirm that those who planned the media unit when the ALP was in Opposition got it right.

The media unit is a major political innovation. It makes life very hard for critically minded journalists, and that, surely, is what every government would like to do. It creates and keeps alive an image of a unified government. Given the factional strife that is currently rife in the Victorian Branch of the ALP, the projection of such an image is almost a miracle. It keeps the ministerial incompetents (and every government has them) either out of the press or occupied in kissing babies. It is hard indeed to see how Cain could possibly be blamed by other politicians for setting it up, even if they happen to be the Opposition.

Perhaps the Liberals would do better by cutting their losses, and thinking hard, in the same way that Labor thought hard in Opposition, about how to organise its publicity. Of course, Oppositions do not enjoy the resources of office, and they do not have the same things to say. Yet they can snipe without the responsibilities of office, and they have better facilities than most journalists enjoy. As every government under pressure knows, critically minded journalists feed off Oppositions.

Who knows? Perhaps some highly paid parliamentarians could be persuaded to give up half the time of their electoral secretaries, or to dedicate a day or two each week themselves, to research. Maybe a coordinating post held personally by a senior shadow cabinet minister could be created. An Opposition media unit would be a different animal, and it might turn out to be a double-edged sword for journalists who use it. But the absence of something like it suggests that the Victorian Opposition is still living in the 1970s.
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THE HEALTH CARE BUSINESS

AKE BLOMQVIST, having studied the health care systems in Canada, the U.S., Britain, and Sweden, recommends sweeping changes to Canada's system of medical insurance. Government response to rising costs has been to increasingly intervene in the health services market — gradually moving Canada's system closer to the British system of "choice by bureaucrats." This trend could result in a substantial reduction in the effectiveness of our health services system — currently among the world's best.

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Economists from nine countries examine the impact of their tax system on the economy of their own country. The authors provide concrete evidence on extent of the tax burden and how it affects economic and social behaviour. The analysis suggests the emergence of a burgeoning "underground economy" as citizens attempt to avoid or evade taxation.

The volume also contains a wide-ranging and stimulating debate about taxation and the burden of government. Ranging from tax incidence to tax "aversion," from Australia to Sweden and from Keynes to Laffer, the discussions are illuminating.

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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.

Government Planning

Supporters of central government planning often refer to the industrial policies pursued by the Japanese government. Although Japan has had great economic success it is not clear that this was due to the Government’s industrial policies.

"Other features of the Japanese economy, such as the high saving rate and the transfer of labour from agriculture to industry, were undoubtedly more important..."

"Japanese industrial policy has had both successes and failures. Some targeted industries, including semi-conductor and machine tools, are almost certainly stronger than they would have been without government support and can be claimed as successes for Japanese industrial policy. Other industries, such as shipbuilding and steel, probably grew more quickly because of government aid, but undoubtedly would have developed without any government intervention."

"However, the Japanese Government has also picked some losers. Aluminium smelting and petrochemicals were favored industries 15 years ago, but the public and private investments have paid off very poorly and now their capacity is being reduced. There are also several examples of successful industries that did not receive government assistance, including motorcycles and consumer electronics."

Council of Economic Advisers to the U.S. President, February 1984.

Undermining Competitiveness

The competitiveness of Australian industry is being seriously harmed by the taxation and administrative burden governments are placing on industry. A mining survey showed that:

"In 1983, 65 percent of pre-tax profits went to Governments and this does not include an area of taxation that is growing very quickly; here I refer to the excess charges levied by Governments such as rail freight and port charges, indexed excise charges and sales tax."

"Amid this increasing taxation burden this industry had to contain costs which were substantially higher than our competitors and improve productivity. At the same time we had to compete in an international market which was becoming more and more competitive. There is clearly a limit to how far any industry can be squeezed like this and still remain in business..."

"It must be recognised that it is ultimately the investors in this industry who pass judgement on the total taxation and administrative burdens this industry has to bear by either making future investments or by directing their investments into other industries. I believe there is some evidence that the latter is occurring."

Bruce Watson, Chairman, MIM, Speech to Australian Mining Industry Council, May 1984.
Regulation and Wealth Creation

There is justifiable concern that more emphasis is being given to regulating industry than to developing appropriate incentives which would help to encourage the creation of new wealth.

"With the extraordinary affluence of Western society in the second half of the 20th Century there has been a complacent turning away from creativity to preservation, and control of policy has been awarded to those who seek to control more closely the use of existing resources, rather than to those who wish to create resources. This is shown dramatically by the rapid increase in size and nature of government bureaucracies.

Do you know that in the past ten years in Australia, the increase in the number of jobs in government and government-related services has been greater than the total increase in employment? In other words, the non-government sector that pays the taxes has lost jobs in that period?"

Charles Copeman, Chief Executive, Peko-Wallsend, Gartrell Memorial Lecture, June 1984.

Supporters of less regulation argue that policies along these lines will improve the welfare of citizens.

"What elements... are necessary to create a climate for economic growth? The answers may be different in Eastern bloc countries, but those who live in developed Western economies would recognise that significant leaps forward in economic development have occurred in periods of minimal intervention and regulation. I think here of England's industrial revolution, the great nineteenth century railroad expansion of the United States and, over the last few decades, the rapid growth of Hong Kong."

Will Bailey, Chief General Manager, ANZ, Speech to Australian Society of Accountants, June 1984.

Government Spending

The more Governments absorb for their own activities the less is available for the private sector and certainly the less scope there is for sustained private investment.

"In 1970 public sector outlays were equivalent to 31 per cent of gross domestic product. This year the proportion could reach 44 per cent."

"It would, in all conscience, be bad enough if the effect of this was confined to chronic dependence on capital inflows associated with deficit budgets. What is worse is that the increased public sector spending is also being reflected in higher Government tax receipts and increased charges on businesses and individuals.

...it is clear that a very large 1984-85 Budget deficit — running to $7 billion — is still intended and it must be pointed out at every opportunity that this is not acceptable (to say nothing of sustainable) as the norm."

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