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

According to opinion polls most Australians feel a great sense of pride in their country.

But the organisation established to oversee the Bicentenary celebrations seems to have overlooked many of the historic sources of our national pride, according to Dr. Ken Baker in his article, The Bicentenary: Celebration or Apology? on page 175.

Indeed, he asks the question whether an attempt is being made to rewrite Australian history. Dame Leonie Kramer on page 183 argues that at least one history book widely used in schools gives a very disparaging view of Australia's past.

This Review includes a special section on communications policy. Dr. Robert Albon and Chris Trengove argue that the major communications' monopolies — Australia Post and Telecom — have been unresponsive to technological innovation; an area where dramatic changes in technology are occurring.

Controlling government expenditure is a crucial task facing governments throughout Australia. Former Secretary to the Commonwealth Treasury, John Stone, examines the record of the Hawke Government. (Review readers will be pleased to learn that John Stone is joining the IPA as its Senior Fellow in March).

These are some of the important topics covered in this Review, and why we believe the IPA is making an important contribution to debate in this country.

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

Achieving ‘The Trilogy’

...Action must be taken now.

Mr Hawke’s Trilogy represents a dramatic development in policy-making. The Prime Minister has defined the fiscal standards by which his Government will be judged. The Coalition could follow Mr Hawke’s example (but not his figuring) in preparing its policies for the next election.

The Trilogy — the commitments relating to taxation, Government spending and Budget deficits — was a major election coup for Mr Hawke. It also represented a revolution in the ALP Government’s approach to public expenditures and introduced a much-needed procedure into budget planning.

Through the Trilogy, the Prime Minister, in a dramatic way, made expenditure restraint the centrepiece of his economic policy during the election.

He was wise to do so. Mr Hawke, according to press reports, recognized that his first two Budgets left him vulnerable to being attacked as a ‘big spender’. (John Stone’s article on page 191 explains why).

In stating his three standards on Government expenditure, taxation and deficits, Mr Hawke, in effect, overturned the traditional Labor approach which has seen increased public expenditures as the way to rectify most social problems in the community. The Trilogy recognizes that Government expenditure must be contained if many economic and social objectives are to be realized.

In this way Mr Hawke has decided to pursue the substance of success rather than an outdated ideological tradition. Other social democratic parties around the world are following a similar course. (see page 216.)

But the Trilogy has wider, and hopefully, longer-lasting significance. For the first

The Trilogy Commitments

Expenditure
‘The growth in outlays will be held within the rate of growth of the economy as a whole’.

Taxation
‘There must be no increase in the overall tax burden, as measured by the share of Commonwealth Government tax revenue in gross domestic product, next year or through the Government’s next term of office’.

Deficit
‘In 1985/86 the deficit will be further reduced, not only as a share of GDP but also in money terms. In the subsequent two years the deficit will not be increased as a share of GDP’.
time a political leader has been prepared to place a specific ceiling on Government expenditure and taxes over the next three years.

As indicated below, the IPA has some reservations on the standards adopted. However, we have advocated the need for political parties to make clear their overall spending intentions so that the public can evaluate the likely course of taxes under the various Party programmes. Mr Hawke has done just that.

**The Need for Expenditure Ceilings**

The principle argument for explicit expenditure ceilings is that they can effectively arm political leaders to resist the pressures of special interest groups.

As we stated in the Spring edition of *Review*, Government expenditure targets (or ceilings) would, among other things, give confidence that public expenditures would not continue to crowd out private activity, encourage a more realistic concentration on priorities by government departments, and assist the Prime Minister and Treasurer to resist the spending proclivities of Ministers.

Election campaigns are too often about winning the support of special interest groups, particularly those groups dependent on the public purse.

An expenditure ceiling places an upper limit on the bids that political parties can make for interest group support, and makes clear to the electorate the size of the bill that will have to be paid.

Assuming economic growth over the next three years roughly approximates long-term growth trends, under the Trilogy Mr Hawke will have to cut the real growth of Government expenditure to at least 3 per cent average per annum (and preferably lower). This contrasts with an average of nearly 7 per cent for his first two Budgets.

If around 3 per cent real growth per annum seems unduly restrictive, recall that the Fraser Government, which averaged about a 2.2 per cent per annum growth in Government expenditures, was criticised by the IPA and others for loose expenditure control.

**Lessons for the Coalition**

With this record, it was surprising that Mr. Peacock was not able to make expenditure restraint a central part of his campaign.

Certainly the Liberal Party was prepared to state generalized objectives on holding down Government spending and reducing taxation during the election. But there was nothing in Mr Peacock’s armoury to capture the attention of the public on expenditure restraint like the Trilogy.

Indeed, it appears that the Opposition may have got its policy development process the wrong way round. It should have started with a clear commitment to spending restraint which should then have governed the funds available for other policies.

Instead it appears to have developed its specific policies first and decided in the light of these commitments the degree of expenditure restraint which was possible. The budgetary expenditure target should come first and only then should policy development proceed.

Such an approach is politically feasible, indeed advantageous. At an early date Mr. Peacock should decide what the Opposition’s target would be if it were in government. This would give the Opposition a firm base for a credible economic policy.

If Mr. Peacock and Mr. Howard adopt this course it would enable them to go to the people in 1987 with expenditure...
restraint (and thus a convincing tax reduction policy) as the centrepiece of the Opposition's programme. Unless they can meet the trilogy commitments, Mr. Hawke and Mr. Keating will soon find themselves very much on the defensive.

Problems with the Trilogy

While Mr Hawke deserves credit for bringing forward the concept of the Trilogy, this is not to say there are not difficulties with the standards he has set.

The key promise relates to expenditure control. Indeed, provided he can sufficiently press down in this area, the other two promises, those on taxation and the deficit, should follow almost as a matter of course.

Unfortunately Mr Hawke has chosen to relate expenditure growth to GDP. There are a number of problems with this relationship.

In the first place, it will be difficult to forecast, with sufficient accuracy, the growth of GDP from year to year. We will not know until some twelve months after the Budget has been brought down and the National Account figures for the fiscal year become available whether the Trilogy standards have been met! Even then, National Accounting figures are regularly revised.

But the major reason is that his standards do not make any allowance for cyclical economic trends. A slower growth in GDP, for example, inevitably places an upward pressure on public expenditures as social security expenditures rise.

A far better approach, in our view, would have been for Mr Hawke to set an average growth for public expenditures over the next three years. This would have allowed him some flexibility in setting targets. A responsible target would be no more than 2 per cent (see 'Government Expenditure Targets Should Be Stated', IPA Review, Spring 1984).

Another difficulty for the Prime Minister relates to his Party's ideology. Many in the Labor Party seem unconvinced about the need to restrain Government expenditure. There is insufficient awareness of the costs to Party objectives of ever-rising expenditures with their consequent adverse effects on taxation, employment and growth.

Mr Hawke and Mr Keating will have to undertake a big selling job in their own Party; there is little time to lose.

The Future

Mr Hawke will no doubt be criticised within the ALP for having made a rod for his own back with the Trilogy commitments. There are signs already that some are looking for escape routes.

We believe the waverers are misjudging Labor's longer term interests. The ALP's best chance of remaining in Government is to adopt a policy of fiscal responsibility. The big spending approaches of the first two Hawke Budgets must be jettisoned. That is precisely what Mr Hawke has tried to do with his Trilogy.

While there have been doubts about Mr Hawke's capacity to achieve the Trilogy, we believe that with sufficient will his promises can be adequately met and can work to his own and Labor's advantage.

A test of Mr Hawke's determination will be the early introduction of procedures to cut back on public expenditures (public service staff ceilings, an effective 'razor gang', real reductions in administrative budgets and so on). Indeed it is a matter for surprise that steps along these lines have not been taken already.
IPA COMMENTARY

THE INTERFERING ITCH

Deregulation may be a fashionable slogan but the fact remains that the regulation of industry continues to grow apace.

Barry Maley detailed in our Winter Review how the ever-mounting regulations relating to the environment, equal opportunity, employee redundancy and health and safety in the workplace were attacking private property rights.

What is also apparent is that the organisations set up by Government to administer the regulatory framework governing private enterprise often act with unbelievable arrogance — as demonstrated, for example by the Human Rights Commission in the attack made on Hugh Morgan by the Chairman of the Commission, Mr. Bailey, and the non-publication of the paper on affirmative action prepared by Gabriel Moens.

At the IPA's Annual Meeting in November, Peter Ritchie, the Chief Executive of McDonald's, outlined an example which would rank high on any bureaucratic harassment scale.

McDonald's was contacted by the Victorian Equal Opportunity Commission and the conversation went along these lines:-

‘Victorian Equal Opportunity Commission here, research officer ..... here’

McD Yes?

E.O.C. “We are investigating apparent ‘age discrimination’ in your employment practices in Victoria. It is obvious that you sack people at 20 and replace them with 16 year olds, effectively discriminating against older people”.

McD “We do not discriminate — the type of employment we offer seems to attract and suit young people. If we have any problem with availability of staff, it is 9-5 Monday-Friday when we would expect our jobs to appeal to older people.”

Have you had a complaint?”

E.O.C. “No — we are pursuing the apparent discrimination against older people”.

“It seems to me, junior wage rates may be too low, they should be equalised with adult wages, and a ‘training’ wage introduced for the ‘inexperienced’ with no age basis”.

McD “That would be fine if adult wages were set at a realistic level. If all wages are increased to the current adult level, that would merely lead to an increase in wage costs.”

E.O.C. “Well, what difference would that make to you?”

McD “We'd have to increase our prices.”

E.O.C. “Yes, but your sales would increase, no one would stop eating at McDonald’s just because the prices went up. It all depends on the elasticity of demand for a Big Mac — do you know how elastic demand is?”

McD “I don’t have such information at my fingertips — I assume it is quite elastic”.

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E.O.C. "I would assume it's inelastic, where else would people go? To other fast food establishments?"

McD "If fast food were more expensive I suppose people would eat less of it, would eat more at home or go to a la carte restaurants more frequently?"

E.O.C. "You could be right — so what would happen if your demand decreased?"

McD "Our demand for labour would decrease."

E.O.C. "But you'd be using older people!"

McD "Yes, no doubt to the considerable detriment of the young unemployed, particularly unskilled school leavers. Explain to me how your theory of 'training wages' would work."

E.O.C. "How long would it take for you to train someone adequately?"

McD "About 6 months."

E.O.C. "Well then put people on a reduced wage for 6 months, then everyone goes onto the same rate."

McD "Wouldn't this discriminate against the younger people who are immature and inexperienced. Surely those aged 20 and older would always be preferred given that they're more responsible and do not require constant direction and supervision. Wouldn't this further aggravate youth unemployment? Shouldn't something be done to assist the young."

E.O.C. "Yes, I see your point. Could you send me something, some written company policy, to show that you don't terminate people as they grow older?"

McD "I'm sure I can do that."

A number of points should be noted. The Victorian Equal Opportunity Commission was not acting on any specific complaint. Part of its objection to McDonald's derived from the company's payment of legally established junior wage rates.

This conversation has all the earmarks of "making work" for bureaucrats. It is hard to believe this discussion would have taken place if there had been enough real issues of substance on the Commission's agenda.

There are some further ironies in the attitude of the Commission.

Peter Ritchie pointed out in his speech that there are some ten applicants for every McDonald's job. Young people are more than eager for these jobs — and no older person had complained.

There is surely a universal consensus that more must be done to assist the employment of young people. Yet the Commission chose to carp at one of this country's major employers of young people. Moreover it advocates policies which would have the effect of discriminating against the job prospects of a group already victimised by Australia's industrial relations system.

The final irony is that major job losses for young people have occurred in public services around Australia. (see IPA Review, Spring, 1984, "Youth Unemployment.. How 50,000 Jobs Were Lost").

In Victoria, for example, the teenage share of government employment fell from 8.5 per cent to 5.6 per cent in the decade to 1981 (Other States show similar trends.)

Perhaps the apparent discrimination against youth by governments could be the focus of the Victorian Equal Opportunity Commission's next inquiry.
Government Expenditure Control

... the first step: STOP NEW PROGRAMMES

Any politician who promises to reduce government spending is inevitably faced with the cry “Where are the cuts going to be made?”

Undoubtedly the politician’s mind immediately turns to the powerful interest groups which will rise to defend their turf should any cuts be proposed.

As we have seen in the last election, the MP typically retreats into generalities, losing credibility with the press and causing despair to the taxpayer and those seeking more rational distribution of resources between the public and private sector.

The difficulties of cutting the size of government are not nearly so great as this standard sequence of events suggests.

In fact, a government determined to reduce the share of government spending in the economy does not need to make any large immediate cuts in spending programmes.

What is required is a determination not to introduce new programmes (at least without offsetting savings) or more extensive services than currently exist.

At the Commonwealth level, for example, the additional funds required to maintain existing government services and income transfers requires something like a 2 per cent real increase in expenditure per annum (largely due to the increasing number of pensioners and beneficiaries). With moderate pruning and reasonable economies this could be cut back to around 1 per cent without treading on too many special interest toes.

With the Australian economy averaging around the 3 per cent real growth the share of government spending in the GDP can drop by 2 percentage points over a three year period.

The problem with most Australian governments is that they have constantly added to new programmes without making significant economies in existing expenditure items. The average growth rate in government expenditure has been significantly above the 1 to 2 per cent real annual growth as the following table shows.

Messrs Whitlam, Holt and Hawke (to date) have run big spending governments, while the Menzies, McMahon and Fraser governments have been more prudent. Indeed the Fraser period is particularly instructive because it shows that even under poor world economic conditions it is possible for a government to hold public spending to an average of some 2 per cent per annum real growth over a long period of time.

<table>
<thead>
<tr>
<th>Government Expenditure Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
</tr>
<tr>
<td>------------</td>
</tr>
<tr>
<td>Menzies</td>
</tr>
<tr>
<td>Holt</td>
</tr>
<tr>
<td>Gorton</td>
</tr>
<tr>
<td>McMahon</td>
</tr>
<tr>
<td>Whitlam</td>
</tr>
<tr>
<td>Fraser</td>
</tr>
<tr>
<td>Hawke</td>
</tr>
</tbody>
</table>

Note: The Menzies figures have been adjusted to exclude the distortions arising from the Korean War. (the unadjusted figures would be 4.0 per cent for budget outlays and 4.3 per cent for GDP growth)

The table below shows the difference in the size of Commonwealth government spending over three years under different budget growth assumptions.

For example, in the third year the difference between an average 2 per cent
real growth rate and a 4 per cent growth path amounts to almost $5 billion ($85.6 billion minus $80.8 billion).

In other words, even relatively small differences in the real growth of spending can lead to budgets of vastly different sizes over a comparatively short period. These differences mean greatly divergent demands for revenue (through taxes or borrowings).

The table illustrates very plainly that smaller government and its reward in the potential for real tax cuts is not “pie in the sky” but an eminently realistic objective under a responsible government.

<table>
<thead>
<tr>
<th>Average Real Growth in Outlays (as % p.a.)</th>
<th>1984/85</th>
<th>1985/86</th>
<th>1986/87</th>
<th>1987/88</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 % p.a.</td>
<td>63,948</td>
<td>67,785</td>
<td>71,852</td>
<td>76,163</td>
</tr>
<tr>
<td>2 % p.a.</td>
<td>63,948</td>
<td>69,140</td>
<td>74,755</td>
<td>80,825</td>
</tr>
<tr>
<td>4 % p.a.</td>
<td>63,948</td>
<td>70,496</td>
<td>77,715</td>
<td>85,673</td>
</tr>
<tr>
<td>7 % p.a.</td>
<td>63,948</td>
<td>72,530</td>
<td>82,263</td>
<td>93,303</td>
</tr>
</tbody>
</table>

*The 1984/85 figures are based on the Commonwealth Budget papers. Inflation is assumed to average 6 % p.a.*

For the last three years Commonwealth budgets have been closest to the worst of the four options in this table (7 per cent average real growth rate). It is no wonder that governments’ search for revenue becomes more frenzied with each passing year.

Governments will find the politics of restraint a great deal easier if they set themselves broad global targets for spending. They can treat all spending demands on an equal and fair basis.

What should this target be?

Governments should do better than limiting the average real growth of spending to 2 per cent a year. Mrs. Thatcher has indicated that her Government’s target is zero real growth for the next three years.

The lesson to be learnt from the above tables is that the public sector’s excessive claims on resources can be reduced over time without cuts in current government services, provided a firm stance on new programmes is adopted.

It has to be said that politicians who promise new programmes under current circumstances (without offsetting cuts elsewhere) are being quite irresponsible.

The marketing of smaller government is not as difficult as our politicians would have us believe!

Public Sector Inflation

... Physician heal thyself

Despite commitments by Governments to restrain their own prices and charges at the National Summit, the public sector has made a disproportionate contribution to overall inflation. This emerges from an analysis of the CPI figures.

Since June 1983 public sector inflation has on average been almost twice that of the private sector. The private sector contribution to the CPI increased by only 7.9 percent over the last eighteen months, against the public sector figure of 15.3 per cent. Certainly the discrepancy between the two sectors has narrowed, (see Table), but as we argue below the raw data may not tell the whole story.

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

The public sector index is for goods
and services whose prices are determined mainly by the public sector; and the private sector index covers goods and services whose 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 and alcohol are also 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.

In the December 1984 quarter private sector prices increased by 1.4 percent while public sector prices increased by 1.6 percent.

A close examination of the figures suggest that the underlying difference between the two sector is greater than these figure suggest.

The public sector’s figures were kept down by the performance of the publicly influenced items. In particular, there was an almost 1 percent drop in the price of automotive fuels due to market influences on the price of petrol.

The contribution of publicly influenced items is expected to be quite different in the next quarter, when the recent increase in the crude oil levy and the 6 monthly indexation of excise duties will have been incorporated into prices.

The most worrying performance in the December quarter came from the State Governments who together with Local Government recorded a 3 percent increase in prices — more than twice the rate of the private sector.

<table>
<thead>
<tr>
<th>Public and Private Sector Inflation (% Change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep. 84</td>
</tr>
<tr>
<td>Private Sector</td>
</tr>
<tr>
<td>Public Sector</td>
</tr>
<tr>
<td>Total CPI</td>
</tr>
</tbody>
</table>

*Adjusted for Medicare changes
THE BICENTENARY: CELEBRATION OR APOLOGY?

by Dr. Ken Baker

Australia's Bicentenary is only three years away. How we choose to celebrate it should reflect the pride most Australians feel about their country. Plans recently produced by the Australian Bicentennial Authority, however, suggest that confidence in Australia's best traditions is lacking among the Bicentenary organisers.

The Australian Bicentennial Authority has released its national programme of projects and events (Bicentenary 88: Special Issue). This programme, writes the Chairman of the ABA, Mr. J. B. Reid, 'provides the focus and overall direction for the Bicentennial Year. It includes a range of special Bicentennial projects and establishes guidelines for future activities.'

The National Programme provides the strongest indication to date of the philosophy of the ABA, the things it considers worth celebrating, the achievements, traditions, values and institutions which it sees as central to the Australian identity and the foundations of Australian society.

The sense of having inherited a worthy past is essential ... to feeling part of a national community.

The problem with the document is that it tends to relegate to the margins of history, or even ignore altogether, many of the very things that most Australians would view as central to the unity and identity of the nation. Moreover, some of the programme's themes are those that currently divide the nation. Its tendency is to sacrifice tradition to current fashion, and even then only to the fashionable concerns of a minority.

While the programme does outline plans and establish guidelines, it is nevertheless, as the ABA points out, only a 'starting point'. There is still time to ensure that the weaknesses and gaps are rectified. This article is written in the hope that it might contribute to this task by identifying areas where the programme is vulnerable to criticism.

First, the symbolic value of the Bicentenary needs to be recognised.

The Bicentenary due in 1988 provides an opportunity for reminding us that much of what we value in Australian society — the freedom, the security, the standard of living — are not the inevitable accompaniments of being human, but depend upon a framework of institutions established over time which, in an important sense, embody the accumulated wisdom of past generations. Even a cursory glance at the plight of the modern world ought to convince us that Australia possesses rare, hard-won achievements worth celebrating and worth defending.

The sense of having inherited a worthy past is essential to providing the spiritual resources necessary to face the future with confidence and to feel part of a national community.

Of course not all that Australia today has inherited from the past deserves
celebration. But the likelihood of the Bicentenary turning into an orgy of self-congratulation is slim. On the whole, Australians seem temperamentally disinclined to displays of jingoism or excessive, rose-tinted sentiment. The risks of the Bicentenary going badly lie elsewhere.

A danger faced by all modern Western nations, Australia included, is in failing sufficiently to assert the worth and authority of their traditions. The potential consequences of this failure lie in producing a generation of rootless, purposeless individuals, full of resentment against the society that has disinherited them. A nation that fails to impart the things it values to its young has stopped caring for them.

The Bicentenary's function should be to remind us of the achievements of the past 200 years, of our debt to our forebears, and our obligations to future generations.

Unfortunately, much of what we as Australians value we tend to take for granted. But if encouraged to reflect, most Australians would probably include the following as central to the quality of their lives: their family, the rule of law, a relatively high standard of living, individual freedom, the extent to which fairness and opportunity are available to all in this country and, while Australians are not notably religious, the vast majority do recognise and value the Christian foundations of their culture.

Indeed, as indicated by opinion polls, the key institutions on which this nation has been built receive strong support. The central role of the family, the Federal Constitution, the Monarchy, free enterprise, the legal system all receive overwhelming endorsement by Australians. Australians have a strong sense of national pride. The Australian Values Study Survey revealed that some ninety per cent of Australians expressed pride in their country — a figure exceeded only by the U.S.A. Australians also express support for the Flag as a national symbol.

The Programme

In 1979 the former Prime Minister, Mr. Fraser, announced the Government's intention to establish The Australian Bicentennial Authority (ABA) to plan and manage a national programme of celebrations. The Authority was given a broad charter in its Memorandum of Association. Among other things, it was to recommend the theme and focus of the Bicentenary, encourage initiatives and stimulate 'throughout the Australian community an enduring consciousness of the historical basis and the significance of the commemoration of the Bicentennial'.

Initially, the theme of the Bicentenary was to be 'The Australian Achievement'. The ABA has since rejected this in favour of the motto 'Living Together'. While this motto is inoffensive, except perhaps to those sensitive to its connotations of cohabitation, it is also utterly uninspiring. On the other hand it does capture a key aspect of the ABA's apparent image of Australia as an amalgam of diverse (alternative?) lifestyles.

Characteristic is the ABA's announcement of the Bicentennial Encyclopedia of the Australian People, described as aiming to 'document the diverse origins and ways of life of Aboriginal people and Torres Strait Islanders and the different cultural groups which have settled in Australia in successive waves of immigration'.
Overlooked is the central importance of Christian values to the foundations of Australia’s heritage

The image stressed here and in other places in the ABA document is of a nation of varied cultures and origins, but one without a unifying core. As is often the case, what is included is less cause for concern than what is selectively excluded.

The Omissions

There is nothing objectionable in the Bicentenary recognising the diversity of Australians. But to speak of diversity without also focussing on the major sources of unity and commonality in the society produces a lopsided and artificial view. The fact is that, despite the variety of origins of Australians, by far the greatest single debt, in terms of the origins of our institutions, is to Britain. But quite remarkably, nowhere in the Bicentennial programme is this fact acknowledged. The programme fails to mention the shared institutional framework, British in origin, which guarantees the right of all Australians, regardless of background, to equality before the law, participation in the political process, freedom of expression etc — the very things that migrants and refugees have often come to Australia in search of. A strength of Australia’s institutions has been their capacity to assimilate groups from varied backgrounds, but the stress on multiculturalism in the ABA document overlooks this.

While the programme fails to give due recognition to the British contribution to Australia’s heritage, it singles out the history and contribution of the Australian Aborigines and Torres Strait Islanders for special attention.

Also overlooked is the central importance of Christian values to the foundations of Australia’s heritage and the existence of a shared ethical code. Instead we are offered the nebulous claim that ‘there are many and diverse spiritual values in Australia’ and the hope that the Bicentenary will ‘facilitate inter-faith dialogue’.

No mention occurs of outstanding leaders in Australia’s history or of the fact that 1988 will mark 200 years of this country as a constitutional monarchy, over 130 years as a parliamentary democracy and 87 years of federalism.

The Authority’s plans seem peculiarly blind to the role of institutions and organisations in building a nation. They focus on sweeping concepts of race (European/black), community, age group, gender and so on. But the mechanisms of progress — organisations and institutions with enlightened leadership—seem to be at best marginal to the Authority’s view of Australia’s development.

One institution, however, which is featured for its role in building the nation is the trade union movement. The Bicentenary, we are informed, aims to ‘celebrate the trade unions’ contribution to the development of modern Australia and their continuing role in maintaining the welfare of the workforce’. Well and good! But nowhere is there a comparable reference to the contribution of private enterprise, a contribution even more readily recognised by most Australians. Is the Bicentenary to be an extension of the Accord?

An international competition giving ‘young tradespeople an opportunity to demonstrate a wide variety of trade and practical skills to the public’ is planned for 1988. While no comparable ceremonial recognition is apparently to be given to
Our Achievements, Our Culture, Our Alliances

Prominent Australians have recorded many of Australia’s achievements which have been overlooked in the ABA’s plans

Democracy

‘The free parliamentary system of this country ... is the chief instrument of the freedom that we are striving to preserve’


The Constitution

‘Australia must be counted as one of the world’s most successful federations — along with the U.S.A, Canada and Switzerland’

Ursula Hicks, *Federalism: Failure and Success*, Melbourne, Macmillan, 1978

‘By the common standards of democratic societies our constitution has succeeded in any number of ways. It has succeeded in authorising and holding a nation together. It has succeeded in developing a will for law and order. It has succeeded in providing and proving the possibility for growth and development when there is an initiative and consensus. It has succeeded in making and extending the virtues of choice by defusing the centres of authority’


Prosperity and Hard Work

‘The development of Australia rates as one of mankind’s great achievements..... One of the most advanced and prosperous societies on earth has been created. It is an achievement with few parallels in the history of human adventure...There are more tales of heroism and sacrifices in the penetration of the Australian Outback than in the whole history of the American Far West’

Paul Johnson, *The Age*, January 22, 1983

British Heritage

‘I cannot go anywhere in Australia without being reminded of our British inheritance; our system of responsible government and Parliamentary institutions, our adherence to the rule of law and, indeed, our systems of law themselves; our traditions of integrity in high places and incorruptibility in our civil service. We derived all these things from Westminster. Our language comes to us from Britain and so does the bulk of our literature. To have no love for a relatively small community in the North Sea which created and handed on these vital matters would to my mind be a miserable act of ingratitude’

Sir Robert Menzies, *The Measure of Years*, Melbourne, Cassell Australia Ltd.

World War II Alliance with America

‘It was clear to us that without the material and moral backing of the people of the United States of America our cause, however right, would lack the strength requisite for its vindication’

John Curtin, quoted in Irene Dowsing, *Curtin of Australia*, Melbourne, Acacia Press, 1969

Our Civilisation

‘Achievements for me are facets of our civilisation which advance human dignity, spiritual strength, the possibility of wise judgement and expanded awareness of the nature of man and his place in the universe. There are many such achievements, and there is far too little acknowledgement of them — in my view — in the present day.

Our civilisation will die unless we believe in it, and we will not believe in it unless we recognise that there have been magnificent accomplishments and that we are justified in feeling pride in them and teaching our children to feel pride in them also’

entrepreneurs, the trades competition is welcome for the value it places on practical achievement. It is only one event, however, in a programme that adopts recreation and leisure as a major theme: 'Leisure in the Age of Technology', 'a national art award incorporating a sport and recreation theme', 'a publication on the history of leisure and recreation', 'a national leisure education curriculum for schools', 'an urban development competition aimed at improvement of leisure and recreation activities', 'food and wine festivals' and so on. The truth is, however, as Paul Johnson has written (see box), the prosperity and strength of Australia was built on the work ethic — hard work under harsh natural conditions. If Australia is to maintain an economically competitive place in the world the virtues of entrepreneurship and productive work, not leisure and recreation, need to be stressed.

Little sense of national identity is conveyed by the Bicentennial Authority’s plans.

'Women's activities' also receive special emphasis in the Bicentennial plans. Yet no mention is made of programmes to support the institution of the family, or highlight the threats to family stability. The only mention of the family is under the heading 'Futures Project'. We are asked to consider 'What do the young see as our future goals? Will the family survive in the next 200 years? What role will women play in shaping new directions in Australian life?'.

It is also notable that the Australian Flag does not appear anywhere in the booklet, despite there being no shortage of other illustrations. In fact the ABA has adopted its own flag for the Bicentenary. But this is to misunderstand the nature of symbols. The Australian Flag arouses pride because it symbolises a worthy heritage; it touches the source of our identity as Australians. A new flag, no matter how aesthetically appealing, cannot do this.

Similarly, the booklet makes no reference to the spirit of Anzac, overlooking the impact of the two World Wars on our history and the values of patriotism, self-sacrifice and courage embodied in the Anzac tradition. Plans mentioned to stage a military tattoo and naval review do not adequately capture the central place of Anzac in the Australian identity. Patsy Adam Smith in her best selling book, The Anzacs, addresses our forefathers in terms that underline the dictum, 'Lest we forget':

'You had the greatest number of casualties per man on the field of all the allied armies, you travelled the furthest, were away the longest. You were the only volunteers. You came from a newer land, you were a younger race than those who entered that awful arena. When time has removed this age to a distance, your descendants will speak of you as we now speak of the 'three hundred' at Thermopylae'.

Not, it must be said, if the ABA's programme is any guide.

The sense of national identity is built around shared attachments to symbols. The exclusion from the booklet of key symbols in Australian culture such as the Flag and Anzac, and the stress on diversity of values and lifestyles means that little sense is conveyed of what is distinctive about being Australian.

As Australia's links with the world are to be a theme of the celebration in 1988, it would also seem an appropriate occasion to recognise the existence of Australia's
historically important alliance with the USA and that country's contribution to Australia's defence, particularly in World War II. This is not done. Nor is Australia's place in the Commonwealth recognised, although it is the Commonwealth which underpins our relationships with many of the nations of the Indian and Pacific oceans which the booklet does mention.

A Political Programme?

There should be broad agreement that the ABA should avoid tackling issues which tend to divide the nation — matters which, while often valid in themselves, are better left to our political processes. The reason for this is obvious. The Authority should aim at securing bipartisan support; its endorsement or encouragement of contentious issues would destroy this support and play into the hands of marginal activist groups who would use 1988 as a focal point for radical change.

The sense of achievement ought to be central to the spirit of the Bicentenary.

Yet the ABA booklet does tackle selected controversial issues — such as race relations, the role of women and multiculturalism. At the same time it ignores other issues of much greater moment to many Australians-falling standards in education, an industrial relations system which condemns many of our young people to unemployment, family breakdown, and the threats to democracy from the increasing influence of big government, big business and big unions.

Elsewhere, the ABA's General Manager, Dr. David Armstrong, has made explicit his own feelings on the race relations issue, claiming that he would not want to be involved in a Bicentenary 'that does not

THE VOICE OF A JEWISH REFUGEE

'My parents and I, as Russian Jews living in Nazi Germany, came to Australia, quite literally, to escape death. So have many others, and not only Jews, and not only from Nazi Germany. I have remained here because there is much about Australia that I admire and cherish: its genuine political democracy, its genuine freedom of speech...... its reluctance to interfere directly in the affairs of fellow-citizens....

'There is a strident, but I believe small section of the population today that is concerned to put ideology above everything: to force people to care, to awaken in Australians, for example, a sense of guilt for their 'racism', intolerance, narrow-mindedness, etc...

'Even Aborigines, who have been treated very badly and often still are, now have more reason to hope for the future than indigenous peoples anywhere except Canada and Scandinavian countries. They are in a better political and cultural position than any minority in the Third World, or in the communist countries, or in most other countries.

'Australia does not have to become a republic, substitute 'Australian' law for common law, stop talking about the Westminster system and launch campaigns to 'modify' the behaviour of its citizens to make me or many other non-Anglo-Saxon migrants feel at home. On the contrary, when it does so, I will begin to worry....'

Eugene Kamenka,
Professor of History of Ideas at the Australian National University, Canberra Times,
August 16, 1984
address the running sore of black/white relations in this country. If it is to be a white wank', he has said, 'I want nothing to do with it'. And indeed this year the ABA dropped plans to stage a large-scale re-enactment in 1988 of the arrival of the First Fleet in Sydney Cove, partly on the grounds that such an event would be offensive to Aborigines. At the same time, however, Dr. Armstrong has called 'absolutely legitimate' any event that might be staged by Aborigines in remembrance of the 'Myall Creek massacre, however painful that might be to White Australians'. Dr. Armstrong has also argued that unless governments make 'significant gestures' to Aboriginal people in the areas of housing, land rights, education, welfare and health, the Bicentenary will have a hollow ring.

Whatever the validity of such views, it is simply not appropriate for Dr. Armstrong to politicise the Bicentenary in this way.

The issue here is not whether the Bicentenary should show respect to Aborigines and their traditional culture. It should. Rather it is whether guilt about the settlement of Australia by Britain is to be a guiding sentiment of the celebrations.

There is little doubt that the coming of Europeans to Australia's shore had a detrimental impact on the culture of the Aborigines. As Geoffrey Blainey has written, the Aborigines may well have been happier if they had been able to continue to live in isolation, insulated from the outside world. But such a proposition is unrealistic in the modern world and in many ways, as Blainey continues, "the European history of this land has been a remarkable achievement".

"It is true", he writes, "that the coming of Europeans was at first a tragedy for most Aboriginals, but we overlook the infinitely larger number of lives that were saved — and are still saved in the Third World — by the food and fibres grown by the new settlers in Australia.

We forget that the Aboriginals, not through their own fault, had sat on rich resources and been unable to use them.

In the past hundred years, tens of millions of lives have been made possible, and tens of millions of lives have been saved, by the more efficient use of those soils which the Aboriginals neglected!"

This sense of achievement ought to be central to the spirit of the Bicentenary. There is no turning back the clock to recreate the insularity on which the survival of Aboriginal culture was ultimately dependent. For the Bicentenary to focus unduly on the damage done to Aboriginal culture by white settlement or on racial conflict will serve only to foster resentment and division in the community. Moreover, to rewrite Australia's past as a story of destruction and persecution will ultimately work to undermine the legitimacy of existing institutions inherited from the past.

Given the series of omissions and the special emphases in the Bicentennial programme (see table on page 182 for a summary), the suspicion arises that the hidden agenda of the ABA is to enact a subtle rewriting of Australia's history. This impression is reinforced when we learn of plans to invite "distinguished Australians and international guests ... to challenge our views on a range of topics" and the intention to establish a 'national review' of all aspects of education relevant to the study of Australia — including Aboriginal studies and women's studies.

The rhetoric of 'community' is plentiful in the Bicentennial programme, yet the document seems strangely out of touch.
with many of the core values, traditions and sources of national pride of Australians. Does the change of the official motto for the Bicentenary from 'The Australian Achievement' to the insipid 'Living Together' speak of a loss of confidence by the ABA in Australia's achievements? Are we to read the neglect of the Christian and British foundations of Australia in the Bicentennial programme as a hint that such things are best forgotten? Hopefully not, for the Bicentennial celebrations ought to encourage us to value our traditions and achievements, not expunge them.

The Authority will receive no thanks from the community or the Government (going to an election in 1987) if controversy surrounding its plans should persist. It is no defence for the ABA to argue that its more vaguely worded plans provide sufficient scope to incorporate the neglected themes, such as those listed in the table, at a future date. The ABA should review its national programme to ensure that it explicitly incorporates such themes and so better reflects the core values and sources of pride of most Australians.

### The Bicentennial Agenda

This table sets out some of the themes, institutions and groups singled out for special attention in the ABA's programme. The right hand column lists themes not covered in the programme.

#### THE CURRENT BICENTENNIAL PROGRAMME

- 'Living Together'
- Multiculturalism
- Leisure & recreation
- Sport
- Religious diversity
- Arts
- Aboriginal culture
- Links with Pacific neighbours
- Community based activities
- Womens activities
- Contribution of trade unions
- Film & television
- Education
- Aviation, tall ships
- Skill Olympics
- Science
- Historic sites, tracks & Manuscripts
- Youth
- The aged
- Participation of disabled
- Bicentennial flag & logo

#### THEMES IGNORED

- 'The Australian Achievement'
- Successful assimilation of migrants
- Work ethic
- High living standards
- Christian traditions
- The Anzacs
- British heritage
- British Commonwealth
- Alliance with America
- The family
- Private enterprise
- Federation
- The legal system & the rule of law
- The Monarchy
- Entrepreneurship
- A workable Constitution
- Freedom of speech & press
- Freedom of association
- Democracy
- Relative social harmony
- The Australian Flag
THE ROCKY HORROR HISTORY OF AUSTRALIA
By Professor Dame Leonie Kramer

The importance of teaching a proper appreciation of history lies in giving children an understanding and respect for their origins — and thus for themselves — as members of a society that preceded them and will outlive them. This article reviews an Australian history book, The Changing Australians by Sue Fabian*, which, argues the author of the review, teaches not understanding, but cynicism. It raises issues pertinent to educationalists and parents concerned that Australian history not be rewritten as a story of oppression, exploitation and injustice and used as a vehicle to teach children respect for nothing.

Before writing this review I showed The Changing Australians to the Cambridge historian Charles Wilson. I am indebted to him for pointing out that there is some resemblance between The Changing Australians and Sellars and Yateman's 1066 and All That. 1066 is a timeless parody of history as it is taught and learnt in school. The Changing Australians performs a similar function in that it is deliberately iconoclastic. But there the resemblance ends, for where 1066 and All That is cheerful, refreshing and very funny, The Changing Australians is burdened with an almost paranoid sense of grievance and resentment.

Australian history is portrayed as a story of cruelty, exploitation and discrimination.

Sue Fabian is out to destroy the fiction, as she sees it, of Australian history as the story of a struggle against perilous beginnings, of settlement, discovery, pioneering, and the establishment of a distinctive way of life in a difficult country. For her, it is a story of cruelty, exploitation, disadvantage, discrimination, and injustice, its victims not only aborigines, convicts and the poor, but also most women and children. The Australian past is, according to Miss Fabian, A Bad Thing. Oddly enough, however, the present, when she finally arrives at it, doesn't seem much better. It is true that the various supposedly liberating cults of the 1970s are held up for admiration, since they shocked the older generation, so it is claimed, out of their conventional wisdom. Curiously, however, television in particular attracts Miss Fabian's criticism as representative of 'the addiction of our times'. The iconoclastic historian becomes a Luddite at the end. Perhaps it is the inclination to destroy that explains the apparent inconsistency.

The sense of grievance is conveyed by a persistent cynical note in the writing which undermines even the apparently positive statements. Nowhere is this better illustrated than in the accounts of the two world wars. While conceding that Australians fought bravely in the First

* Sue Fabian, a former teacher of history, is now a consultant with the Victorian Education Department. She has published books on women and children in Australian History.
World War, Fabian slants the account by comments such as these:

The war was often seen as a way for rich manufacturers to get richer while the workers died like sacrificial lambs. Many women opposed the war. They saw no need for their husbands and sons to be taken off to be slaughtered. (p155) (italics mine)

There is no mention of the defence of democracy and freedom.

The effect of this kind of writing is, of course, to erode the facts of the case. The first sentence begs the question. The third implies that though there was no conscription, there was in fact, compulsion. An accompanying cartoon offers only the basest motives for enlisting, and ends with a member of the Industrial Workers of the World announcing 'It's all a plot to make the rich richer, sabotage the war effort'. This untruth is accompanied by an invitation to students to 'add to the arguments for and against enlisting'. But by the time they have absorbed the innuendoes of the text, and read that 'Anzacs were often mere cannon fodder (human sacrifices to be shot at)', there is little likelihood that they will have understood the idealism and patriotism, (defined as 'love of homeland, often at the expense of other nations') which motivated so many Australians at the time. To object to Fabian's accounts is not, of course, to argue that World War I was a Good Thing. It is to say that one can deplore the waste and suffering of war without misrepresenting the motives of those who volunteered to fight it, and without turning a tragedy into a vast conspiracy.

Even worse is the account of World War II. The only reference to the causes of the war is the statement that 'the gaiety of the late thirties was soon clouded over by the grim news of Hitler's new Germany and its aggressive policies'. There is nothing about Hitler's march through Europe, and nothing about the massacre of the Jews. Australians once again enlisted:

to revive the Anzac spirit, become heroes, and prove how brave and patriotic they were. For some it meant leaving a dull job, the burden of family responsibilities, or just taking a chance to share the great excitement and mateship that brought men together. (p188)

There is no mention of the defence of democracy and freedom. But there is a section on opponents of the war in which we are told that:

the workers and the Labor Party felt that the masses were always the ones who suffered in wartime, and the Communists said it was just another chance for big business to make money, while workers died for no good reason. (italics mine)

There is no attempt to rebut these views. But even more disturbing is the statement that while Jehovah's Witnesses opposed the war "the other religious groups in Australia blessed the fight for 'right'." (p188-9) Note the inverted commas around right. They mean of course that the very notion of right and of a just cause is to be questioned. In the same vein American assistance to Australia is the 'Yankee invasion', and Nazi and Japanese atrocities are attributed to a 'highly mechanised war, where science had helped humans to inflict more and more serious wounds on one another' (p194).
There is no point in multiplying examples, except to say that alongside this account of events runs a parodic history of women in Australia. They are slaves to domesticity, victims of social injustice and second-class citizens. Even those remarkable pioneering women are condescendingly credited with coping well 'considering the lack of training they received'. Their motivation, like that of the Anzacs, is trivialised. 'Faced with the boring round of afternoon teas and gossip that town-life often had in store for them, many preferred the romantic ideal of disappearing into the unknown in the arms of a strong man!' (p90)

The Changing Australians has been reprinted four times, and is widely used in Victorian schools. It raises fundamental questions about the purpose of teaching history. What kinds of citizens is such a text likely to produce? What does one do to a child by bringing it up on distortion, suspicion and distrust? Here is a country which, in two hundred years, has made extraordinary progress in settling a difficult land; it has a proud history of pioneering and exploration, and its people have displayed courage, stamina and fortitude. It has become home to thousands of victims of totalitarian persecution, and they have made a splendid contribution to its cultural and social life. It has produced artists, scientists, writers and sportsmen known throughout the world. To characterize it as the tool of British imperialism, the heartless promoter of class war and disadvantage is false and reprehensible.

Through history, students should learn chronological perspective, a respect for evidence and documentation, an understanding of the complexities of the past, and the difficulty of arriving at explanations of it. The Changing Australians uses the language of propaganda, is sadly lacking in documentation, and treats cartoons as though they were statements of fact. On page 15 is an illustration purporting to be an extract from the 'New Holland Morning Post' of 18 October 1791 describing the spearing of Governor Phillip. I say purporting, because the 'New Holland Morning Post' did not exist, nor did any newspaper in 1791; and the illustration to the report sub-titled 'The fearsome natives who attacked His Excellency with spears ..' was in fact drawn by Sydney Parkinson nearly twenty years before. The two aborigines are those who opposed Cook's landing. This whole page is, in fact, a fabrication and the account of the episode seriously misrepresents the facts. This comes from an author who urges the importance of going back to primary sources.

Australia is not a perfect society, and one can sympathise with a desire to reform it, and to learn from the mistakes of the past. But it will certainly not improve if its educators begin by deceiving the pupils whose lives they hold in trust, and deprive them of a proper pride in their country, and a realistic and honest appraisal of its shortcomings. Reform is based on recognition of the facts, not on the promotion of propaganda and half-truths.
GOVERNMENTS AND JOB DESTRUCTION
by Jacob Abrahami

By diverting the community's resources into unproductive areas, Governments are destroying private sector jobs.

We are all too painfully aware of the decline in employment opportunities in recent years. Less noticed has been the change in the structure of employment itself. Yet the change in the distribution of jobs can go a long way toward explaining the persistence of high unemployment.

To understand how the changing pattern of employment has reduced overall employment we need to conceive of the economy in terms of two sectors; the market sector and the non-market sector.

Non-market employment has increased by 50 percent in ten years.

The non-market sector is that part of the economy where the earnings of workers are not (mainly) derived from the sale of goods and services in a competitive environment. The output of the non-market sector is either sold by a monopoly (e.g. electricity and water supplies) or more often paid for by government out of consolidated revenue and given away 'free' or at below cost to consumers (e.g. education and public health services).

The market sector encompasses the part of the economy where earnings are derived from the sale of goods and services. Agriculture, mining, manufacturing, construction, wholesale and retail trade, finance and insurance and some transport activities make up the bulk of the market sector.

Public administration, community services, such as health, education, welfare and law and order are the main non-market activities.

Of the 711,000 additional jobs created in the past 10 years, 517,000 — or 73 percent — are outside the market sector and heavily dependent on government funding.

While non-market sector employment increased by almost 50 percent in 10 years, market sector employment increased by only 4.1 percent. Some market sector industries gained employment, but others fared very badly; in particular 215,000 jobs disappeared from manufacturing industry and 65,000 from the construction industry.

The rapid rise in non-market employment and the almost unchanged level of employment in the market sector are not coincidental. They are closely related.

To finance employment in the non-market sector, government must tax the market sector to provide funds to pay non-market employees. This transfer process reduces the number of jobs offering in several ways.

Government services by and large are produced as a result of political decisions rather than of market decisions and hence with less regard to economic costs than must be given in the market sector. Resources are employed with little concern for their productive potential and are to this extent wasted.
Even where government services are sold in the market place (e.g. transport) these services generally absorb more of the community's resources per unit of production than similar services produced in the market sector. As a result of these inefficiencies, less resources are available for more productive investment and job creation in the market sector.

Then there are costs involved in making the transfer. Costs arise from the adverse effects on incentives of the higher taxes needed to finance the non-market jobs. Steps taken by taxpayers to avoid or even evade paying some of their taxes also involve a real cost.

The magnitude of these real costs may be very substantial. A recent Australian study estimated that the output cost of each additional dollar of tax revenue raised could vary between $1.23 and $1.65 depending on how it was raised. That is each 100 new non-market jobs may destroy up to 165 market jobs.

Further, many of the services produced by the non-market sector actually reduce expansion and development in the market sector. Much of the regulatory activity of government would fall into this category. Non-market job creation harms market sector employment because it reduces profits.

Many of the services produced by the non-market sector actually reduce expansion and development in the market sector.

It is not intended to suggest that the output of the non-market sector does not contribute to the well-being of society. The traditional functions of maintaining law and order, administering justice, enforcing contracts, or controlling market imperfections all help to establish the basis and trust needed for markets to work. But, the temptation is always there for governments to provide services which would not be provided at all if the priorities of consumers were accurately reflected in government decisions.

Further, where government involves itself in activities which could be subject to market pressures, they are inevitably less efficiently provided than they would be in the market sector.

**Resistance by Market Sector Employees**

The larger the non-market sector the more of their output will market sector employees have to surrender (via taxation) to meet the needs of the non-market sector employees.

Unless market sector employees are happy to exchange market output for government services they will take action to make up the losses they incur from having to pay higher taxes. This is precisely what has happened during the last decade.

The wage demands of the past ten years in part represent an attempt by workers to regain their traditional share of market output — a share which they lost as a consequence of the rapid expansion of government in the early 1970s. To the extent that workers were successful it had to be at the expense of one or both of the other groups competing for marketed output — investors and the non-market sector (government).

If the government has invincible power to expand the non-market sector, while unions give workers power to resist any cut in their spending on market-produced goods, then something else must give. In Australia that something else was private investment and hence employment.
Special Interest Power

The retreat from the market sector reflects the increasing power of special interest groups associated with the growth of government.

Governments are collecting in taxation an increasing proportion of privately generated income. Politicians justify higher taxes on the ground that there is a need for the redistribution of income and the provision of ‘public goods’ which are not provided by the private sector.

In fact, however, much of the tax revenue goes to meet the needs of special interest groups, such as teachers, social workers and public servants.

The single issue groups are able to offer governments blocks of votes in return for government outlays in their field of interest.

The successful special interest groups often represent labour-intensive industries where increased government outlays translate into higher wages and/or more employment.

Thus, the winners are usually the well-to-do middle-class professionals who are employed in the non-market sector, while the losers are the young who must find employment in the market sector. This is clearly reflected in the unemployment statistics which show school-leavers to have an unemployment rate 10 times that of professional, technical and related workers.

The Future

A new series published by the ABS covering wage and salary earners allows us to examine development since July 1983 and gives us a hint as to what the future might hold.

<table>
<thead>
<tr>
<th>EMPLOYMENT BY INDUSTRY</th>
<th>1974-1984 ('000s)</th>
<th>% Annual Change</th>
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<tbody>
<tr>
<td>MARKET SECTOR 1974 1984</td>
<td></td>
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<tr>
<td>Agriculture 404.8 411.5</td>
<td>0.2</td>
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<tr>
<td>Mining 73.8 94.8</td>
<td>2.5</td>
<td></td>
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<tr>
<td>Manufacturing 1374.3 1159.3</td>
<td>-1.5</td>
<td></td>
</tr>
<tr>
<td>Construction 506.3 441.8</td>
<td>-1.2</td>
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<tr>
<td>Wholesale &amp; Retail 1165.7 1311.7</td>
<td>1.2</td>
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<tr>
<td>Transport &amp; Storage 313.4 349.9</td>
<td>1.1</td>
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<tr>
<td>Communications 130.7 138.1</td>
<td>0.6</td>
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<tr>
<td>Finance 429.4 609.9</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>Recreation &amp; Other Services 355.5 430.9</td>
<td>1.9</td>
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<tr>
<td>TOTAL MARKET 4,753.9 4,947.9</td>
<td>0.4</td>
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<tr>
<td>NON-MARKET SECTOR 1974 1984</td>
<td></td>
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</tr>
<tr>
<td>Electricity, Gas &amp; Water 104.1 142.5</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Public Administration 250.5 318.3</td>
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<td>Community Services 746.7 1157.5</td>
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<td>TOTAL NON-MARKET 1101.3 1618.3</td>
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<tr>
<td>TOTAL 5855.2 6566.0</td>
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This series shows that in July 1983 almost 40 per cent of wage and salary earners were working in the non-market sector (with over 80 per cent — 1,630,600 persons — directly on the public pay roll). In the following 11 months 85,300 new jobs were created, with only 25,100 (29 per cent of new jobs) in the market sector, the bulk of the new jobs (60,200 or 71 per cent) were created in the non-market sector.

This distribution of new jobs heavily in favour of the non-market sector represents a major restructuring of the Australian economy. At the current rate of non-market job creation people now entering the market sector will, before the end of their working life, have to provide sufficient revenue, each to support one non-market worker.
NATIONALISING WORKERS' COMPENSATION

...breeding ground for inefficiency

One of the most common causes of “Big Government” is the effort to make good previous failures caused by government actions themselves.

Frequently the problems governments say they are solving are caused by unwise government intervention in private enterprise in the first place.

This is very evident in the latest step to nationalise workers' compensation in Victoria. The rapid inflation of workers' compensation in recent years has been largely due to government legislating for improvements in benefits. It is a question of “public sector failure” rather than “market failure”.

Under the Cain Government's proposal the competitive market with many private insurers will be replaced by a government controlled monopoly. Competition will be prohibited and employers will have to accept the compensation terms offered by the new authority. There is no way for private sector insurance companies to operate as workers' compensation insurers in their own right.

The latest move continues the trend of government action undermining private sector insurance by taking over key areas of activity. Last year a major part of private health insurance was swallowed by the public sector under the Commonwealth Medicare Scheme. The limit on third party car insurance premiums imposed by the previous Victorian Liberal Government drove private insurers out of that sector of the market.

In other countries the trend is different. Privatisation of key government commercial activities, not nationalisation of private activities, is clearly the wave of the future.

The Thatcher Government in the UK has led the way. Major divestitures of state assets have occurred in West Germany, Italy and the Netherlands. In Japan the partial privatisation of Nippon Telegraph & Telephone has been announced.

The arguments in favour of removing commercial activities from government control are well-known. Investment decisions are more likely to be made on economic rather than political grounds, ensuring that the community's resources are more effectively used. The power of special interests (unions, rural and so on) to win special privileges is reduced when market disciplines are enforced.

Consumers benefit through increased competition and improved productivity. Governments obtain additional revenue to assist in cutting deficits.

The reforms proposed for workers' compensation in Victoria to cut costs (eliminating most lump sum settlements, abolition of government charges, a comprehensive statistical system and so on) are not incompatible with a multi-insurer private scheme.

Indeed the insurance industry has accepted the Government's own Report of the Committee of Enquiry into the Victorian Workers Compensation system (the Cooney Report) which, among other
things, proposed a multi-insurer scheme. The Cain Government has rejected this key proposal of the Cooney Report. The proposals finally adopted by the Cain Government appear to be dictated more by a political than by a reform agenda.

The belief that a government authority can deliver real cost benefits over a period of time is misplaced. Experience shows that government monopolies are better at delivering high costs and poor service. It is unlikely that in the workers' compensation area the laws of economics and politics can be reversed.

(In this issue of Review two academics analyse the poor performance of two important government monopolies — Australia Post and Telecom).

The proposal by the Cain Government raises a key matter of principle. There can be no doubt that the proposal represents a major attack on the private sector. This attack is not only confined to the insurance industry but has implications for other sectors and indeed, for the proper functioning of markets in the State.

First, changes proposed by the Cain government will require a major restructuring of private insurance in the State. Approximately 30 per cent of private insurance business is in the area of workers' compensation. A loss of this magnitude will obviously de-stabilise a key industry and is likely to have a detrimental effect on other insurance costs.

Second, as part of the proposal some $1,500 million in investments (shares, debentures, notes etc) are likely to be transferred to the new authority. These are funds being held to cover outstanding claims. The Government may therefore acquire a substantial ownership or control over some private employers.

Third, there could be direct effects immediately on other areas of private sector activity — apart from the insurance industry. Under the proposals there will be a transfer of compensation patients (estimated 80,000 bed days) from private hospitals to public hospitals.

Fourth, the proposed monopoly could have a significant impact on the direction of future investment flows in Victoria. Some $800 million of premium income will be diverted from private organisations through a public authority. There is a fear that funds may be used, for example, to prop up public enterprises or ailing private sector companies. There are many examples of State Government Insurance offices being directed to invest their funds to specific areas of activity on the basis of political expediency rather than economic merit! The Government's proposal states: "An important benefit of the Commission will be the ability to control reserves directly, to ensure that the best investment policies are followed". A single fund is clearly more liable to government influence.

Finally, the Victorian move clearly has nation-wide implications. The proposal is being watched closely by other States and it may be emulated. And the question may now be asked what other class of insurance may become the target of public sector ambitions.

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A MAJOR FAILURE OF POLICY
by John Stone

The 1984 Commonwealth Budget was accepted by many economists, businessmen and other commentators as a generally responsible document. The former Secretary to the Treasury, Mr. John Stone, describes this budget as a major failure of policy. The opportunity to cut back the deficit and rein in expenditure was missed.

The most compelling evidence for any government's future performance in controlling its expenditures is to be found, I suggest, in its past performance in doing so.

There was a 'one-off' revenue surge of the most enormous magnitude.

In my Shann Memorial Lecture of last August I observed, by way of an aside, that "while there is expected to be some reduction in" both the Commonwealth's own Budget deficit and the total Public Sector Borrowing Requirement "in 1984-85, that will entirely result from the enormous 'one-off' surge in revenues, which, this year, the Commonwealth Budget will be experiencing".

In an address after leaving the Treasury I elaborated on that a little, as follows:

"As the Budget papers reveal, the growth in revenue for this year was, prior to the tax cut, estimated at no less than 20.3 per cent. That is a 'one-off' revenue surge of the most enormous magnitude, deriving from a particular conjuncture of events — including in particular revenue collection lags. There is not the faintest likelihood of seeing it repeated in 1985-86 or beyond."

"This, surely, was an opportunity, if ever there was, for cutting the deficit in a truly meaningful manner — to (say) around $4.5 billion or $5 billion rather than the actual outcome of $6.7 billion — figures which the Budget papers reveal to have been entirely possible of achievement. Yet we all now know that that was not done."

The unhappy fact is that the outcome for the 1984-85 Budget represents nothing less than a major failure of policy. More particularly, given the title of this paper, it represented not merely a failure to make a major advance in reining back the deficit but, within that, a significant failure in expenditure control in particular.

Let me explain that a little, basing myself of course solely upon the figuring which appears in the Budget papers themselves, and particularly, so far as outlays are concerned, in the Appendix to Statement No.3

In effect, the Budget estimates may be thought of as having been made up as in the table.

1 1984 Shann Memorial Lecture, mimeo, p.21
2 'What kind of Country?' Address to the second Australian Business Congress, Sydney (15 October, 1984) and Melbourne (17 October, 1984); Mimeo, pp.16-17.
The Framing of the 1984-85 Budget (all figures $ billion)

<table>
<thead>
<tr>
<th></th>
<th>Outlays</th>
<th>Receipts</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward Estimates</td>
<td>64.1</td>
<td>(a)</td>
<td>(a)</td>
</tr>
<tr>
<td>Parameter/Estimates Variations</td>
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<td>(a)</td>
<td>(a)</td>
</tr>
<tr>
<td>'Starting Point' (b)</td>
<td>63.4</td>
<td>58.5</td>
<td>4.9</td>
</tr>
<tr>
<td>Policy Decisions post-Forward Estimates (b)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Increase</td>
<td>1.1</td>
<td>0.5</td>
<td>-1.3</td>
</tr>
<tr>
<td>- Decrease</td>
<td>-0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget Estimates</td>
<td>63.9</td>
<td>57.2</td>
<td>6.7</td>
</tr>
</tbody>
</table>

(a) The forward estimates document does not contain figures for either receipts or the deficit.

(b) In fact some "policy decisions post-forward estimates" were taken in the April-June, 1984 period prior to the Budget Cabinet processes. For example, the tabulation on p. 284 of Budget Paper No. 1 indicates revenue measures (net) announced prior to the Budget having revenue effects in 1984-85 amounting to about $0.2 billion. Although no comparable breakdown is given in the Budget papers in respect of outlays, some part of the $1.1 billion shown above for the increase in outlays "post-forward estimates" undoubtedly resulted from pre-Budget decisions. For both these reasons the term "Starting Point" as used in this table is not wholly accurate as a description of the situation confronting Ministers at the outset of Budget Cabinet, but any difference would be small. If, for example, we put the true "starting point" deficit at $5.0 billion, we would almost certainly not be far out.

What this tabulation reveals is roughly that:

- At the outset of the Budget Cabinet decision-making processes, Ministers were facing a prospective Budget deficit for 1984-85 of approximately $5.0 billion — see footnote (b) to the table above for the derivation of that figure.
- During those processes, expenditure savings in the order of $0.6 billion were agreed upon.
- Those expenditure savings were however more than offset by decisions to undertake additional expenditure amounting to around (say) $0.9 billion.
- In addition, tax cuts amounting in all to a cost of $1.3 billion (net) in 1984-85 were decided upon.
- The upshot was a deficit (after rounding, and given some slight inexactitude in the published data underlying the preceding figuring) of $6.7 billion.

This was a budget brought down by a government grown supremely confident.

The nature of that "major failure of policy" of which I spoke is thus quite clearly revealed:

- Had Ministers taken no decisions at all in the Budget Cabinet processes, a Budget could have been brought down with a deficit of only $5.0 billion compared to the $6.7 billion actual outcome.
- Had Ministers made the expenditure-saving decisions which they did in fact make, but did nothing else, a Budget could have been brought down with a deficit of only $4.4 billion.
- Had Ministers, while being less responsible than either of those two outcomes would have implied, nevertheless seriously placed a higher priority on reducing the Budget deficit — to (say) less than $6.0 billion (compared to the $6.7 billion deficit actually brought down) — they could have done so while still providing a tax cut costing (say) $1,000 million in 1984-85 and assorted additional spending decisions, doubtless mainly in the social security area, costing (say) around $500 million in 1984-85.

I ask you to recall that this was a Budget

1 Published by the Department of Finance, March 1984.
2 See Budget Paper No. 1, Appendix to Statement No. 3., p. 272
3 See Budget Paper No. 1, Statement No. 4, p. 284
4 After allowance, that is, for (say) $0.2 billion of the spending increases shown in the tabulation having been taken ‘post-forward estimates’ but pre-Budget Cabinet.
brought down by a Government grown supremely confident, a Government led by a Prime Minister in the full flight of that authority then thought to be conferred by an outstanding personal popularity rating as revealed by the opinion polls; a Government facing a still apparently demoralized Opposition; a Government preparing for an election in which, it was confident, it would be returned to office with a massively increased majority; in short a Government — and this is the point — quite unlike the Government we now have.

This article is taken from a paper entitled 'Fiscal Policy 1985/86' delivered to a Seminar held by the Centre of Policy Studies at Monash University.
PROMOTING HIGHER STANDARDS IN SCHOOLING

... Australian Secondary Education is moving in the wrong direction

By David Dyer

American schools have been devasted by a ‘tide of mediocrity’, according to the US National Commission on Excellence in Education (see Peter Samuel, IPA Review, Winter 1984). There are similar signs of declining standards in Canada. What is the situation in Australia? It may well be worse, but deliberate decisions have been taken by educational authorities not to find out.

There are significant difficulties in assessing trends in standards in Australian schools at the present time. Anecdotal and impressionistic evidence suggest that standards are not as high as they could be and might even be declining. But scientific evidence is lacking.

There should be far more public concern about the educational outcomes resulting from the significant public investment in education.

An attempt was made to assess standards in Australian schools in 1981 when the Australian Council for Educational Research published Studies of Performance in Literacy and Numeracy, a piece of research commissioned by the Australian Education Council following an earlier 1975 study. The 1981 paper indicated that from 1975-1980 there had been a rise in the minimum standards of literacy and numeracy. The research did not show any increase or constancy in the average and upper levels of literacy. As Professor Lauchlan Chipman indicated in his address to the N.C.I.S. Conference in June 1983 (Shape, Control and Curriculum Principles), the information produced by the research is inadequate because researchers were not allowed to reveal and analyse the relevant data on the ground that if the results of such analysis were published, it could exacerbate divisions between the public and private sectors of education. Furthermore, the Australian Education Council subsequently decided to discontinue the study altogether.

The original notion was to undertake a study every five years in order to monitor at least minimum standards of literacy and numeracy among 10-year olds and 14-year olds. In view of the proper concern about early drop-out of children from full-time education, this could have been a useful study in identifying reasons for this early drop-out. It might also indicate why remedial English has had to be made available in the Duntroon timetable because a number of cadets do not have adequate communication skills, notwithstanding the fact that they have been specially selected on the basis of interview, a school report and H.S.C. results. Over the time which...
spanned the period of the second A.C.E.R.
Standards Survey, in most schools there
were remarkable improvements in available
per pupil resources. ‘Real recurrent
expenditure per pupil in government
schools increased by about 50 per cent and,
from 1976-1981, real recurrent expenditure
per pupil in most non-government schools
increased by about 20 per cent’. (Professor
Peter Karmel — Stawell Oration, 2/5/84).
There should be far more public concern
about the educational outcomes resulting
from a very significant public investment
in all sectors of education: public and
private, primary and secondary.

Retreat from Accountability
On the contrary, there now appears to be
a determined stand against any form of
accountability for what goes on in schools.
The very word ‘inspector’ is anathema and
nationally there is a decisive move to give
school assessments far greater weight than
previously in the final school examination
results.

The move in at least one
State, Victoria, is towards
the total abolition of
external examinations.

Certainly there are sound educational
reasons for some of these changes, which,
if properly managed, will be to the benefit
of everyone — the student, the teacher, the
tertiary institution and employer. However,
the move at least in one State, Victoria, is
towards the total abolition of external
examinations. In this instance, a recent
article in The Australian makes an
interesting observation: ‘The debates turn
partly on educational philosophy, often
have ideological over-tones and, in some
cases, get caught up in the dispute over
State Aid to private schools’.

In March, 1984, the Victorian Institute
of Secondary Education circulated a
discussion paper — ‘Towards a Revised
Policy on Curriculum and Assessment in
the Victorian Year 12 H.S.C. Program’. The
proposals were ‘designed to increase further
the opportunity for school participation in
curricula development and assessment, and
to lessen the reliance on external
examinations. While continuing with this
policy, V.I.S.E. is not, in the current set of
proposals, suggesting abandoning all
examinations.’ In response to submissions,
V.I.S.E Council, in September, made certain
decisions which are to be regarded as
‘Statements of Intent’. The most significant
statement of intent is that, in 1990, all
V.I.S.E. accredited courses will use
externally moderated school-based
assessment procedures. In other words,
external examinations will be abolished,
notwithstanding that this was not a policy
change on which schools, tertiary
institutions, employers and parents were
invited to comment in March. In fact, it was
specifically excluded from consideration,
although it might be said that by reading
between the lines of the March paper, this
was all the time the real intention.

Why this policy change? Why not
consultations on the policy change? What
are the likely ramifications for students in
schools and for agencies outside schools?
What is known of the consequences of such
procedures in other parts of the world?

Need for Standards
On May 6th, 1984, a Canberra Times
article described a new teachers’ group in
the A.C.T. which was seeking to restore lost
standards — the Professional Association
of Classroom Teachers. Regrettably, the
P.A.C.T. voice has not been heard since, at
least outside the Capital Territory, but one
of its concerns was that ‘the substitution of
continuous assessment by the individual
teacher for external examinations, means, in effect, that there are no external standards by which to judge a student's performance'.

In a book recently published in Canada — The Great Brain Robbery — three Professors of History, David Bercuson (University of Calgary), Robert Bothwell (University of Toronto) and J.L. Granatstein (York University, Toronto) describe the effects of the abolition of matriculation examinations and the substitution of a system in which teachers determine the final grades of students leaving High School. They point to a wholesale inflation of High School leaving grades and to a remarkable increase in the number of students failing basic English and Mathematics examinations during their first tertiary year. Although some High School teachers have refused to accept the evidence and are maintaining that there is no decline in standards, Departments of Education across Canada are now starting to take a further look at departmental and matriculation examinations.

Can Australia afford to adopt examination procedures which have been seen to be less than satisfactory elsewhere in the world?

There certainly is room for change: indeed, in Victoria there have been changes in assessment procedures since 1978 when an earlier V.I.S.E. policy statement pointed out that schools should have a significant and increasing opportunity to determine appropriate Year 12 curricula for their students and to participate in the assessment of their students. The changes envisaged then are only just now becoming established practice in schools. At the same time, to preserve credibility, there have to be appropriate safeguards to ensure comparability across schools.

Apart from the enormous costs involved and the unavoidable taking of teachers away from classrooms, consensus moderation, whereby teachers determine the standards, cannot sensibly be regarded as a reliable means of ensuring comparability of marks or grades across schools. If it is put into operation, we can expect the setting of special examinations by employers and tertiary institutions to suit their own specific needs and the establishment by both employers and tertiary institutions of a 'pecking order' of schools. 'If HSC is also abolished, then employers will have no other choice than to either conduct their own employment examinations, or select school leavers on the reputation of the schools they attended'. (V.E.F. Report 2/11/84) Such a situation, not uncommon in the U.S.A. and Canada, would seriously disadvantage those very students whose cause is espoused by those who advocate the abolition of external assessment. Leaving aside the needs of employers and tertiary institutions, in fairness to all students at least 50 per cent of all Year 12 examinations should be externally assessed.

Lack of competence in fundamental skills leads to lack of confidence.

What objections could there be to such an arrangement?

There is a genuine concern for disadvantaged students and those who do not display their real ability under exam conditions. Here, help can be given by developing student profiles. These take into account those skills and aptitudes which cannot be measured by the written examination, but are of interest to employers. Useful work on this is now being done in the United Kingdom.
There is genuine concern about the poor retention rate in schools after the compulsory years of schooling as compared with many other countries. This concern has persuaded ‘educationalists’ to water down the demands of senior studies and has given impetus to a move to achieve ‘equality of outcomes’. Indeed, as Geoffrey Partington explains in ‘Opportunities more equal than others’ (Bulletin, 30/10/84), there is evidence that some who have influence on Australian educational policies seek to adjust downwards the marks of those who attend schools regarded as privileged or upwards the marks of those who attend inefficient schools. Perhaps it is easier to penalise good teaching than to grasp the nettle and work towards eradicating bad educational practice. Surely no-one would deny the clear need to work at all times for equality of opportunity in education, but those who make equality of outcome an essential plank in their educational policy fear the pursuit of excellence because it is seen as elitism. They would do well to note the words of Sir Marcus Oliphant: ‘I have no patience with those whose drooling democracy forbids elitism in education while accepting it wholeheartedly in sport, in the theatre, ballet, and in music — classical or pop’.

They would also do well to pay more attention to the primary and early secondary years: lack of competence in fundamental skills leads to lack of confidence and dropping out of school. Indeed, reasons for inequality of outcome and early drop-out from school run far deeper than final-year assessment procedures. The first priority is the respect of pupils for clear, high standards throughout their schooling, something very much underplayed in recent years. Has there been too much sociology and psychology of education, and too little of that classroom craft and of that essential rigour to which children of whatever calibre invariably respond?

**Attitude to Authority**

This may be a provocative question, but I have the feeling that too many of those who train teachers are ambivalent about the concept of authority. Perhaps this is just part of the confusion about the place of authority in the world outside school. Whatever the reason, there is no doubt that the young today, perhaps more than ever before, are looking for clear adult direction from their parents, and from their teachers. They are not really interested in the business of negotiating a curriculum: they are interested in being well taught at school and learning at school what they cannot learn elsewhere.

Australian policy makers must face a number of key questions:

1. What can be done to make good a national shortage of high quality teachers, especially in the key subjects — English, mathematics and the physical sciences? Industry has often attracted good teachers of mathematics and science away from schools, and this, in the long-term, will be to the detriment of industry.

2. Should we consider an external examination at the end of Year 11 to meet the needs of widely-different levels of student without watering down standards of excellence? (It is worth noting that the proposed 5th Form General Certificate of Secondary Education in the U.K. aims to provide some possibility of success for all levels of ability in the school population).

3. Alternatively, it could be worth considering such an examination at the end of Year 12, with those wishing to go on to tertiary studies remaining at school.
for a further year. There is some evidence that schools are having to pack too much into the Year 12 syllabus, and that failure or dropping out from first-year university courses is the result of some students starting tertiary studies before they are ready for them.

4. Shouldn't all schools receiving public funding, government as well as non-government, be publicly accountable for their educational programmes as well as for their use of public money? This could be done in one of two ways: either through inspection or by the submission every 4-5 years of a satisfactory evaluation report which would be the result of an approved evaluation process. No teacher should see such procedures as threatening, but rather as a means of reviewing and improving school programmes.

5. It is not unfair to suggest that the two greatest obstacles to finding solutions to the problem of unsatisfactory standards in Australian education are the traditional indifference of most Australians to education and the relatively low standing of the Australian teacher in the community as compared with counterparts in West Germany, Scandinavia or Japan. This is not to suggest that teachers, themselves, are entirely blameless for their status.

Teacher Example

No adult, parent or teacher, possesses that crystal ball which will show the kind of world today's children will live and work in. Nevertheless, schools are more and more being called on to prepare children for the world of tomorrow. It is that very world, with computers playing an increasingly important role, law and order breaking down, society's view of personal morality being shaken to the core, not to mention the threat of a nuclear holocaust and the exhaustion of the world's resources, that adds so much to the difficulties of schools and those who work in them — students and teachers. And yet it is these very challenges that make it important for schools to do what they have the capacity to do as well as they possibly can, i.e., develop an intellectual awareness that will allow a young person to adapt to a rapidly-changing world. Schools should not be expected to undertake a multitude of extraneous tasks, including functions which, previously, have been seen as the responsibility, indeed the privilege, of parents — driver education, sex education, drug/alcohol education, preparation for unemployment or having periods of boredom when in employment.

**Young people learn from the example they are set in schools as they observe their teachers.**

Relating to others and making decisions have always been essential skills. To be fulfilled, every citizen should be able to relate to other people and to assess what is right and wrong before making a firm decision on what action to take. Much of this can be learnt by the student at school who is involved in worthwhile extracurricular activities which provide appropriate tasks and responsibilities.

Most of all it comes to young people from the example they are set in schools as they observe their teachers.
MARKETISING THE MAIL

by Dr. Robert Albon.

Without competitive pressures, business organisations tend to become inefficient and unresponsive to community needs. Robert Albon argues that as part of Mr. Hawke's plan to restructure the Australian economy, Australia Post's letter monopoly should be removed.

The Australian Postal Commission (Australia Post) is one of the largest business organisations in the nation. Annual revenues total well over $1,000 million. Only 5 other enterprises employ more workers than the 32,000 on Australia Post's payroll.

Australia Post provides indispensable services to businesses and individuals. These services should be available as cheaply and efficiently as possible. With a legal structure which has more in common with the 19th rather than the 20th Century, the post office is ill-equipped to meet the technological revolution in communications.

Australian Communications could be vastly improved by subjecting our postal system to market disciplines.

Australia Post has substantial exclusive trading powers, covering well over half of its mail business. Section 85 of the Postal Services Act prohibits a person to 'carry or convey a letter for reward' except in a number of circumstances including where the letter exceeds 500 grams in weight and where it is carried and delivered with goods to which it is related. A recent amendment excludes letters carried for a price of at least ten times the Commission's rate on that letter.

Australian communications could be vastly improved by subjecting our postal system to market disciplines. This 'marketisation' would ensure that postal services are responsive to the requirements of consumers — both individuals and companies. It would also ensure scarce resources are not wasted by grossly inefficient use and, among other things, would assist the introduction of new technology.

The Bradley Committee of Inquiry into the Monopoly Position of the Australian Postal Commission highlighted some major weaknesses. Yet its proposals, including retention of this monopoly position and financial target-setting, are unlikely to cure our postal ills. In particular, the Bradley proposals will not solve the problems of rising costs, lack of responsiveness to consumer demand and poor industrial relations.

The Committee was preoccupied with the continued financial viability of the government-owned postal service. This emphasis deflected its attention from the important function of determining ways to improve the efficiency and effectiveness of Australia's postal system.

As US Nobel Prize winning economist, Milton Friedman, has noted, the basic problems are government ownership and monopoly power. Attempts to get such a system to behave in a socially desirable manner are, as Friedman puts it, similar in effect to getting a dog to purr. The system itself is the root of the various problems — 'it should occasion no surprise that a monopoly and government bureau is costly, inefficient and backward'.
Reducing Costs

The consumer has not received any benefit through lower prices that may have been expected from the cost savings resulting from significant reductions in services and claimed productivity gains.

It has been observed that prior to the mid-1970s there was a ‘progressive decline in the quality of service — in the number of post boxes, in the frequency of clearing and of delivery’²⁷. In fact services in some areas have declined drastically. Most householders once received eleven deliveries a week. Today the figure is typically five. Further, counter service has been reduced by Saturday morning post office closure.

Cost reductions may also have been expected as a result of productivity gains. In its submission to the Prices Surveillance Authority in October 1984 the Department of Communications noted that productivity was ‘33 per cent higher in 1982/83 compared with 1975/76’.

The table shows that prices have remained roughly constant in real terms following the substantial increase in 1975.

<table>
<thead>
<tr>
<th>COST OF LETTERS</th>
</tr>
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<tbody>
<tr>
<td>Actual Standard Letter Rate at June 30 each year in cents</td>
</tr>
<tr>
<td>1974</td>
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<tr>
<td>1975</td>
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<tr>
<td>1976</td>
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<td>1977</td>
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<td>1982</td>
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<tr>
<td>1983</td>
</tr>
<tr>
<td>1984</td>
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<tr>
<td>1985*</td>
</tr>
</tbody>
</table>

* Assuming 7 per cent rise in the consumer price index.

Most users pay far too much for their mail services.

Some care should be exercised in interpreting this data. The temptation should be resisted to do, as Australia Post has done, and choose 1976 as a base year and claim a reduction in the real price. Neither is 1974 a suitable base. The fairest assessment is that the cost of sending a standard letter has roughly remained constant, a conclusion that is verified if we adopt the procedure of noting that a rise in 1975 to 15 cents would have been sufficient to eliminate the then existing deficit on the mail services. A rate of 15 cents in 1976 represents in 1984 prices a rate of about 30.8 cents.

Most users pay far too much for their mail services and complaints are widespread. This results from the general cost-inefficiency of Australia Post and because the uniform price does not reflect large differences in the costs of provision of the service to different groups of users.

In 1981, when the standard postage rate was 22 cents, the cost of a delivery within a metropolitan area of a letter originating in the same state was 20 cents (and less for strictly intra-metropolitan mail) compared with 29 cents for deliveries to country areas of mail originating from interstate.²⁷ Australia Post had admitted to costs of upwards of $2 in 1979-80 to deliver some letters. The total cross-subsidy to rural users has been estimated at about $24 million in 1980-81.

A dual rate or even a more differentiated rate structure reflecting costs of delivering standard mail is feasible and desirable. A dual rate structure used to operate in most of Australia prior to Federation. Australia Post will not — or, perhaps, cannot — make this simple reform.
Improving Efficiency

Market pressures force business organisations to constantly look at ways of improving efficiency and reducing costs through organisational changes and the introduction of new technologies. The post office is shielded from these pressures and suffers accordingly.

The Bradley Report reveals that: '...the provisions of the present legislation do not provide the Commission with sufficient incentive to undertake continuing assessment .. (in regard to) the uneconomic use of prime sites in major urban areas, the contracting out of counter service functions, .... and greater use of non-official post offices and community mail agencies..' (p. 39).

Government monopolies inevitably transfer power to unions at the expense of the public.

Where competition is allowed — in the areas of parcels and other postal items not covered by the statutory monopoly — there has been a dramatic growth in private sector activity. Courier services, airline companies and the document exchange system are examples of the mushrooming fringe postal system. This sector offers a faster, more secure and more reliable service at a comparable cost. The private services have come into the market while Australia Post has had the opportunity to prop up its own service from the profits on its lucrative standard postage service. We are unable to verify whether in fact it does this — the necessary financial information is not available.

Friedman has described the US postal system as 'backward'. This has been a common accusation in the Australian context where the relatively technically advanced telecommunications system has been contrasted with the technically backward postal service. The attempt to introduce automated centralised mail-handling facilities met with union opposition and 'decentralisation' ensued. Australia Post has recently moved into advanced electronic mail transmission and seems to be taking a more positive approach to technology. The degree of achievement is, however, far from impressive.

Industrial Relations

Government monopolies inevitably transfer power to the unions at the expense of the public. A strike cannot only inflict serious financial damage on businesses and individuals, it can cause major political damage to the owners of the enterprise — the government. The pressures to settle a dispute are often irresistible — particularly as the cost of settlements can usually be recouped through increased prices. Sweetheart deals are endemic to the system.

Despite immense efforts to improve the industrial relations performance of Australia Post, strikes and other industrial disputes have had a devastating impact on the rate of delivery delays, especially in New South Wales. In the current year to date there have been 20 major strikes and stoppages in that State alone. It has been estimated that mail delays cost business almost $60 million a year.

Financial Targets

The Bradley Report argued strongly for monopoly retention and suggested financial target-setting as the panacea for our postal ills. Making the Commission pay a rate-of-return on its capital may not be a sensible step while its monopoly power remains.
POST OFFICE PERFORMANCE

★ A number of submissions to the Price Surveillance Authority's inquiry into postal charges drew attention to the very poor service quality provided by Australia Post in regard to its New South Wales operations. Reader's Digest, which provides 1 percent of the Commission's total revenue, opposed any increase in charges until it 'demonstrates that it can consistently provide the service for which it is currently charging customers'.

★ The Australian Treasury opined that the existence of low rates of return on capital was evidence that 'prices, overall, have not been excessive'. But is it not more plausible that the low rates of return resulted from cost inefficiency rather than low prices?

★ The Australian Federation of Consumer Organisations in its submission asserted that Australia Post took delivery of mail-sorting equipment costing some $10 million nearly two years ago but this machinery has never been used.

★ The Commission itself presented a table to the Authority showing CPI and standard letter rate movements since 1976-77 and then claimed that 'Over the total period since the establishment of the Commission, the basic postal charge has increased much more slowly than any of the price indices examined below'. But the point here is that the Commission was established in 1975 and not 1976. If the year 1975 is chosen as a basis a very different picture emerges (see table).

★ In its submission, the Department of Communications noted that, on one measure, productivity 'was 33 per cent higher in 1982-83 compared with 1975-76'. Even though this increase is exaggerated by the selection of a very low base (because of the effect on mail volume of the 80 per cent rise in the standard letter rate in 1975), the observation raises a very significant question — given that real wages have changed little, why haven't postage rates fallen substantially in real terms?

★ Australia Post revealed that it will have to put on an extra 95 staff as a result of tightening restrictions contained in new occupational health and safety regulations.

★ "Postie Norm", a Sydney postman of twenty-six years, has resigned under some pressure from his workmates. Earlier Norm had spoken to the Sunday Telegraph (9.12.84) about how Australia Post management had told him to slow down because he was showing up the other postmen. He told of slack practices that had caused our postal service to become a "disgracefully lazy and apathetic operation that needs to be dug up and started all over again". Norm blamed management who "never bother to check to see what anyone is doing or encourage workers to do a better job".

★ The Deputy Opposition Leader, Mr. Howard, was reported in the Financial Review (14.1.85) as blaming public sector industrial action on the repeal of the "no work as directed — no pay" legislation. Mr. Howard noted that Australia Post had blamed this repeal as the primary cause of an upsurge in work bans disrupting its New South Wales operations during 1983-84.
Financial targets could result in the substitution of some dollar profits for implicit profits burnt up in cost inefficiency, the 'quiet life', 'feather-bedding', etc. But these benefits might well be outweighed by the Commission attempting to flex its monopoly muscle more in an effort to make-up for the rate-of-return dollars it must hand over to the government. This, of course, assumes that the government is willing and able to enforce the financial target it sets.

The post office in Australia has not been successful in making profits. Why should it when these cannot benefit the organisation itself? While it has usually broken-even, the Australian Postal Commission has an unknown real financial position. It has been almost completely exempted from paying a return on its considerable capital and it pays no taxes. On the other hand it has had to cross-subsidise certain users via, in particular, the uniform rate on standard postage and the concessions to registered publications. A generous superannuation scheme is another burden the post office has to carry. According to its submission to the Prices Surveillance Authority, the 'annual charge for superannuation is judged to be some $40m in excess of a private sector scheme' (p.46).

Restoring Power to Consumers

There are no convincing arguments for retaining the postal monopoly. The one with the strongest appeal is the maintenance of a service to remote areas. But this could be privately-provided (as are many other rural services) or continue to be provided by Australia Post with explicit subsidies rather than implicit ones as at present. Indeed deregulation could have some benefits to rural users in the form of more frequent and more reliable services.

In short, if the Government desires an efficient, effective and equitable mailing service it should marketise the system by removing the statutory monopoly. In the meantime a number of policy changes would improve the system:

- expansion of the class of articles that can be carried legally by private operators
- complete suspension of the monopoly during industrial disputes
- introduction of at least a two-tier rate structure on standard mail
- greater use of private contractors in mail carriage, provision of counter services, etc.
- a requirement that the Commission disclose fully the details of its financial performance in all its areas of operation
- disentangling of Australia Post from the Commonwealth-type superannuation scheme.

To date, the Labor Government seems determined to protect the postal monopoly. Indeed, there is almost bipartisan support for this unfortunate policy. The Liberal and National Parties' Communications Policy emphasises greater public accountability and user involvement rather than allowing competition. Marketisation is the only way of restoring real power to consumers.

NOTES
4. All of the figures in this article are sourced in a forthcoming study of the Australian post office. See, R.P. Albon, Private Correspondence: Competition or Monopoly in Australia's Postal System?, Centre for Independent Studies, Sydney.
COSTS OF THE TELECOM MONOPOLY

By Chris Trengove

In Japan and Britain the giant telecommunications authorities are being privatised. In the US the American Telephone and Telegraph Company's monopoly has been broken up. But in Australia the Telecom monopoly is being reinforced. As a consequence telecommunications is yet another area where Australian development is lagging.

The Telecom monopoly is retarding Australian telecommunications in a number of respects. It is reducing the extent to which advantage can be taken of new technology, eliminates competitive pricing across a range of areas, leads to unnecessary and undesirable uniformity in product and services, and is producing an extraordinary misallocation of resources.

The deregulatory approach displayed by the Hawke Government in some areas is not apparent when determining the fate of statutory authorities.

It is a monopoly whose maintenance is explained by a powerful coalition of rural interests and labour unions at the expense of the rest of the community.

When appearing before the Davidson inquiry into telecommunications services in Australia, the secretary of the Australian Telecommunications Employees Association, Bill Mansfield, stated that in his view 'the claims that competition and private sector involvement will increase the range of services, speed the introduction of new services and in particular, will lead to lower costs, are unproven'. By contrast, Telecom had a 'proven record of ... delivering a broad range of modern telecommunication services to subscribers at a cost which most can afford'.

In a literal sense it is difficult to disagree with Bill Mansfield. The effects of 'competition and private sector involvement' in telecommunications are 'unproven' since for the most part they are prohibited by law. The performance of the monopolist Telecom is, at least relatively speaking, 'proven', since it is all that we are able to observe.

Davidson Subcommittee Report

It is not so difficult, however, to disagree — as did the Davidson Committee in its report — with the proposition that merely citing the historical performance of a monopolised telecommunications industry should, of itself, justify continuing legal protection of the monopoly. Instead, the Committee expressed the belief that 'competitive delivery of services' would lead to:

• competitively priced services
• faster and more innovative service
• diversity of product choice
• greater assurance of service continuity and reliability.

It is now apparent that Australia may have to wait some time before it can

1 Transcript of proceedings of the Inquiry into Telecommunications Services in Australia, April 23, 1982.
2 Report of the Committee of Inquiry into Telecommunications Services in Australia, Volume 1, p.50.
discover, at first hand, the effects of increased competition in telecommunications. Although the deregulatory approach displayed by the Hawke Labor Government in some areas — notably, our financial markets — has exceeded that of its coalition predecessors, it has not shown a similar fortitude when determining the fate of Australia's many statutory authorities. Presumably because of its solid trade union constituency, the present government's attitude towards Telecom stands in marked contrast to that of, say, the British Government, which has privatised British Telecom (see Dr. Siebert's article on p. 210). It is also noticeably less antagonistic towards Telecom than was the government of Malcolm Fraser, which, while not being exactly willing to discuss the issue of privatisation, was at least prepared to consider subjecting the organisation to a degree of competition.

The institution we call the 'statutory authority' has enjoyed considerable prominence in Australia. In the case of a wide range of our common services it has been the favoured option of many governments. The problem of monopoly power has been 'solved' by creating distinct trading entities with no clear set of owners, yet separate from the body of the public service. The clear aim has been to capture a mixture of 'public' and 'private' enterprise — to attenuate the drive for profits which characterises private firms while avoiding the sloth and bureaucracy of the public service.

The workings of this process are clearly illustrated in the creation of Telecom. Its parent is that ancient institution, the post office, characterised by Adam Smith as 'perhaps the only mercantile project which has been successfully managed by ... every sort of government'. By 1975, it was felt that the heavily bureaucratic organisation of posts and telecommunications was becoming increasingly inappropriate, particularly given the rapid technological change occurring in the latter. In that year the telecommunications activities of the Department of the Postmaster-General were split from the postal activities and both were removed from the public service. The hope was that, by virtue of their increased autonomy, the new statutory authorities would be more commercially responsive, innovative and efficient, and less subject to day-to-day political and bureaucratic interference.

**Telecom Performance**

Like many other statutory authorities (notably, the various state electricity utilities), Telecom performance has fallen somewhat short of the ideal vision. In the drive for efficient operation, what is frequently forgotten is that the tendency for private firms to minimise costs derives from a clear incentive — profit maximisation — which, by deliberate design, is lacking in the case of the public enterprise. In the absence of that incentive, why should the management and employees of Telecom care about efficient performance? It seems a little naive to hope that efficiency should be obtained simply by a grant of increased autonomy.

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**Telecom has shown a disinclination to actively pursue the full gamut of new technological possibilities.**

Moreover, there seems to be an uneasy trade-off between additional decision-making freedom for Telecom, and the ability of governments and parliaments to monitor and control Telecom performance. This is even more the case since the presence
of the Telecom monopoly guarantees the absence of a suitable yardstick by which to guage Telecom performance. We are left with dubious international comparisons, which, unfortunately, often concentrate on the technical standard of Telecom services, including the usual range of service quality complaints — delays in connections, limited choice of handsets, non-itemised billing, overcharging, and so on.

While the debate on liberalising telecommunications is confined to the provision of the 'basic' telephone service, however, Telecom is able to benefit from a substantial degree of consumer tolerance. As far as quality is concerned, the telephone is typically perceived as a fairly homogenous commodity. Provided that their telephone works, and is not inordinately expensive, most people are reasonably satisfied. This simplifies things for the supplying organisation, whose attention can be totally focussed on the provision of a single, 'uni-dimensional' product, which, by and large, sells itself.

The major concern for Australia, however, is that the days of the 'basic telephone service' as constituting the sum total of marketable telecommunications technology are over. The industry is now experiencing one of the most rapid rates of technological progress of any, in part due to a convergence with the digital techniques and developments in the dynamic (and unregulated) computer industry. It is now, and will become, increasingly possible for both terminal and network switching equipment to perform cheaply an expanded range of functions, including the transmission of an increasing number of types of information. Instead of being able to focus on a single product with a well defined range of uses, telecommunications providers of tomorrow will have to cope with an increasingly diverse range of services.

New Technology

It is not just that a statutory authority is an inappropriate institution for handling the introduction of new technology. Rather, it is likely that no single organisation will be able to perceive the totality of applications made possible by new technology. One only has to consider the phenomenal development of the microcomputer industry in the space of a few short years and ask oneself whether that development would have taken place were it in the charge of a single firm with a guaranteed monopoly. It would have been even less likely within the bureaucratic structures which characterise the publicly owned telephone authorities, and which have shown little interest in product diversity, even when it comes to matters such as the colour of telephone hand-sets.

More worrying, though, than the disinclination of Telecom and similar institutions to actively pursue the full gamut of new technological possibilities, is their ability to prevent others from doing so. Many innovations will tend to substitute for human capital currently possessed by Telecom employees and will be resisted accordingly. We are faced with a further repetition of our communications history whereby, first the telegraph, and then the telephone, were included within the postal monopolies which they threatened. In the words of a former British Postmaster-General, the tactic is to 'ensure that all possible technical developments are caught within the monopoly ... before they are invented and before they become competitive with the monopoly, for that would be a very embarrassing position'.

1 Statement of John Stonehouse in the House of Commons, quoted in The Economist, August 9, 1969.
We may note at least three recent examples of successful Telecom efforts to shore up, or even extend, its telecommunications monopoly.

1. Throughout the lengthy gestation period of the AUSSAT project Telecom has consistently argued against the deployment of Australian communications satellites. It has tended to paint this particular technology as either unnecessary, or, at a minimum, as something which should be incorporated within Telecom itself. In fact, under Labor, it has achieved a partial fulfillment of this secondary objective with its acquisition of a twenty-five per cent shareholding in AUSSAT.

2. With respect to network attachments and terminal equipment it appears that Telecom has been able to regain some ground which it had earlier been forced to concede. The present Industries Assistance Commission inquiry into telecommunications equipment has recently been informed that Telecom has ‘moved to re-establish itself as the monopoly supplier’, a position it had openly relinquished in the context of the Davidson inquiry. In fact, it has imposed new import regulations ‘designed to prevent imports of phones which compete with Telecom models by restricting import permits to existing models. Imports of re-styled versions of existing models will not now be allowed’.

3. Most recently, but perhaps of greatest long term significance, Telecom has announced plans to market its own combination personal computer and modem (a device for connecting two computers by telephone line). The Australian Financial Review, in its editorial of November 22, 1984, suggested that Telecom has ‘decided unilaterally to sabotage the Australian private personal computer industry by contracting with ICL to produce a machine which, with the advantages of the Telecom monopoly, will enable it to dominate the Australian market’. The point, of course, is that it is Telecom’s ability to unilaterally prohibit built-in modems in competing PCs which offers it the prospect of extending its monopoly in yet another direction.

Uneconomic Projects

At the same time as Telecom does its best to slow the growth of new technologies which threaten its monopoly, the organisation is devoting vast resources to projects which are freely admitted to be uneconomic. In its 1983-4 Annual Report the Commission announced its intention to ‘complete’, and fully automate, the entire national telephone network by 1990, at a cost of some $400 million dollars and requiring five million working hours of engineering. While this represents a ‘commitment .. of a sort not undertaken by any comparable national communications authority anywhere in the world’, Telecom’s Chief General Manager said that ‘the Commission was pessimistic about even covering the interest payments on the remote area investment and faced a particularly low rate of return on the capital’. The Minister for Communications, Mr. Michael Duffy, was unperturbed, saying that ‘it is not then a real worry to me that all the benefits flowing from Telecom’s endeavours in the rural and remote areas don’t show up on its balance sheet’.


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Regulation to limit competition should not be the prerogative of Telecom.

However, since other patrons of Telecom's monopoly services are effectively taxed to provide these funds, perhaps the Minister may wish to point out to those people just where the benefits of remote and rural investment do show up. At the same time he might attempt to assure all of us that these funds could not have been more productively invested elsewhere in the telecommunications system or elsewhere in the economy. The Davidson report, for example, was puzzled by the relative shortage of STD circuits between Sydney and Melbourne, since, at the existing STD call rates, the cost of additional capacity could be recouped in about four months.7

This incredible distortion in resource allocation, with its stifling effect on the introduction of new technology, continues to be tolerated. The Telecom monopoly has been forged from a powerful political coalition of rural interests and labour unions. Several generations of Country Party Postmasters-General have now given way to a Labor Government committed to maintaining employment levels in Telecom and other statutory authorities. Both lobby groups continually emphasise a view of the telephone as a basic right of all Australians and suggest that this view is inconsistent with anything but a guaranteed Telecom monopoly without which a policy of uniform price and service would be impossible.

Lack of political opposition to the cross-subsidisation of rural and remote services is, no doubt, primarily due to its extent being concealed from metropolitan subscribers and to the fact that it is spread reasonably thinly across that numerically large group. Yet a policy of subsidy which relies for it successful implementation on the fact that it is concealed from those who are disadvantaged by it, is not something about which a nation should pride itself. As the Davidson report emphasised, direct subsidy of rural subscribers — or anyone else — is an obvious alternative to the current system of hidden cross-subsidisation. Its adoption would achieve a substantial increase in accountability, be less wasteful than current methods, and, most importantly, be capable of operation in a liberalised telecommunications environment.

As mentioned at the start of this article, it appears that the present government has no stomach to pursue 'radical' policies of competition and privatisation with respect to Telecom. Despite this, however, we suggest that there is substantial room for improvements which fall short of these alternatives.

Accountability
- To improve accountability, the Commission should cease to be the judge of what constitutes desirable 'social' policy. The government should take responsibility for, and be accountable for, subsidisation of rural and remote users.
- At the very least, Telecom should be obliged to disclose the amounts of the major subsidies — and the off-setting taxes — implicit in its accounts.

Incipient Monopolisation
- Because of its statutorily protected monopoly position, there is a strong case for quarantining Telecom to its existing range of activities. Given a carte blanche

7. Some additional STD capacity has been installed since the time of the Inquiry.
of the entire spectrum of technological developments there is a significant prospect of Telecom extending its influence further and further into all aspects of information control, data processing, telecommunications and computing. Each new proposal, such as the latest one involving personal computing, should be closely scrutinised. By comparison, AT & T in the US was prohibited from entering the field of computing until such time as it had been stripped of a large portion of its monopolistic powers.

- In order to limit the extent to which Telecom can retard new technological progress it is vital that, as long as we have a system which is characterised by extensive regulation, that regulation is not the prerogative of Telecom. The Commission's powers to unilaterally make regulations concerning, for example, network attachments, should be taken from it and placed in the hands of some third body.

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**HAYEK'S 'SERFDOM' REVISITED**

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Once or twice in every generation a book is published which has a profound public impact. 'The Road to Serfdom' by Friedrich Hayek, published in 1944, was one such book. Written by Hayek while tyranny still scoured Europe, his stark warning about the eventual results of growing state control and the fallacious economic ideas on which it was based struck an ominous chord.

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Price: $9.00, plus postage $1.00
The transformation of British Telecom into a public limited company is a landmark in the privatisation programme of the Thatcher Government. Prior to the British Telecom float only 120,000 jobs had been privatised by the Conservative Government. The total has now been increased by 250,000 employees. Supporters of privatisation policies can learn some important lessons from the privatisation of this huge communications organisation.

British Telecom (BT) is the second largest nationalised industry in the U.K. (the biggest being electricity generation). On November 28, 1984 50 per cent of BT shares were sold, at a price that will eventually bring in nearly £4 billion, the largest share flotation in history.

1. Basic Objectives

The fundamental principle regarding the efficiency of private enterprise has been stated as follows: "In the case of public ownership, the costs and/or rewards of a decision are less fully borne by the decision-maker than under a scheme of private rights". The argument runs that (a) the buying and selling of shares in a company (i.e. transferability of ownership) gives share owners an incentive to monitor management; (b) the value of the share provides an easy-to-observe indicator of management quality, and (c) transferability of ownership encourages specialization — good risk and good management quality assessors will tend to become shareholders. We would therefore expect the private firm to be more efficient in the sense of having lower unit costs and being more customer oriented than a similar public firm.

There are some reservations to this fundamental principle of private sector superiority. These include the possibility that a private monopolistic firm may have efficiency problems; the so-called natural monopoly argument and the possible down-playing of "social needs" by a private firm. None of these factors appears to be of significance as an impediment to privatisation of BT. Even if telecommunications were a natural monopoly this does not imply that privatisation is undesirable. Any 'social needs' should be catered for by explicit subsidies, not by subordination of commercial objectives.

2. Competition

BT has been allowed to retain its dominant market position under the enabling privatisation legislation. The Telecommunications Act of April 1984 states that entry into the business of supplying telephone services over a public network requires a licence. The 'Director General of Telecommunications' is enabled to grant such licences. The Government has stated that only BT and one competitor will be permitted to receive a licence until November 1990. The competitor is to be a subsidiary of Cable and Wireless, a company named Mercury, which was set up in 1981 to connect major cities with optical fibre cables. It is also envisaged that cable television companies wishing to offer telecommunications services will require the co-operation of either Mercury or BT.
There are considerably fewer public call boxes in nationalised Britain than in private enterprise America.

The case of BT illustrates how difficult it is to rectify the structure of an industry once a monopolistic structure has been set up via nationalisation. The forthcoming privatisation of British Airways is proceeding in the same way, with British Airways set to retain its dominance, and the Civil Aviation Authority’s plan for independent airlines to take BA’s European routes from provincial airports ignored. The main source of the difficulty is that producer groups within a company benefit from the company’s monopoly power. Indeed, the main union in BT, the Post Office Engineering Union, went on strike for nine weeks in 1983 in the attempt to frustrate the growth even of the competition provided by Mercury.

The union aimed to prevent Mercury from connecting up to BT. A monopolistic position in the product market means that the demand for union labour is less responsive to wage levels and the union is better placed to benefit its members. The opposition of unions to BT’s privatisation shows this “Marshallian” principle in action.

Regulation
The disposal of 50 per cent of BT’s equity to the public provides a substantial public interest in BT’s profit maximising operation, which the Government will be reluctant to override. In any case, the Government has announced in the Offer for Sale (November 20, 1984) that it “intends not to use its rights as an ordinary shareholder to intervene in the commercial decisions of BT”. It seems therefore that BT will be run as an ordinary commercial enterprise, and in particular will attempt to minimize costs. This will rule out cross-subsidization of local by long distance calls, and will ensure tighter control of labour costs — it has already been announced, for example, that unrestricted guaranteed index-linked pensions are to stop (Offer for Sale, part 1, Section 6).

In these circumstances, given that BT has little competition, the regulatory framework is important if the benefits of cost minimization and productivity increase are to be passed on to the consumer. It has been decided that BT’s prices will be regulated until July 1989. The weighted average of line rentals and prices for inland subscriber dialled calls, 55 per cent of turnover, are not to be permitted to increase by more than the increase in retail price index less 3 percentage points, i.e. average tariffs are to fall in real terms by 3 per cent a year. However, the prices of international calls, public call box calls, and telephone apparatus are not to be controlled, nor are Mercury’s prices to be controlled. No regulatory system is ideal, but the advantage claimed for this system is that it is simple to monitor, and provides an incentive to keep costs down (compared with rate-of-return regulation).

BT is also required to maintain the existing 999 emergency service, and existing public call boxes. This is intended to ensure that “social needs” are met. In fact, there are considerably fewer public call boxes in nationalised Britain than in private enterprise America. This suggests that the changes that private ownership is said to pose to ‘social needs’ have been over-emphasised.

The Terms of the Sale.
The share flotation has been managed with several objectives: arousing the
enthusiasm of BT employees with the issue of free shares, spreading share ownership widely among the public, and receiving a fair value for assets. Some 95 per cent of BT employees applied for their 54 free shares, and a further 80 per cent went on to buy subsidised shares (the company offering two free shares for each one bought, up to a £100 maximum). The fact that the take-up was not even higher can be put down to some of the employees’ objections, encouraged by the union movement, to privatisation as such.

Re-nationalisation, it is argued, will be less popular if many people hold shares. The threat of re-nationalisation is real in that the Labour Party has promised, if re-elected, to “recreate a publicly owned and democratically run telecommunications system in the United Kingdom” (Offer for Sale, part 1, section 3). The form of words is interesting — “democratically run” presumably means the strong unions and consensus management which we have cited already as a cause of the slack performance of BT.

In any case a wide share ownership has been achieved, at least initially, by setting a low price on the shares, allowing part-payment, and rationing to favour the small investor. Only 50p of the £1.30 share price has had to be paid up initially, and the rest is to be paid in two installments in the next two years. This price values the company at about £8 billion which is low when compared with the £14 billion current cost balance sheet valuation of tangible fixed costs. The price attracted £16.5 billion worth of applications for the £3.9 billion shares available for sale (only one third of these being in fact available for purchase by the general public).

Privatisation opens the door to more competition and consumer orientated production.

The shares have been rationed to benefit the small investor. Those applying for 400 shares are satisfied in full, no one is to obtain more than 800. These measures have resulted in over 2 million shareholders. To prevent small holders selling up, as portfolio balance would normally require, an incentive in the form of a share bonus is payable after three years. About two thirds of the public have opted for this bonus, indicating they intend to hold on to their shares.

Prospects

The fact that such a large flotation has been accomplished is highly significant. Despite dire predictions to the contrary investors have been enthusiastic, and there do not seem to have been wider effects on interest rates and exchange rates. This will ease the way for future ownership transfers.

The privatisations immediately in prospect are British Airways (with capital valued at about £1 billion), British Airports Authority (which runs the seven major airports — capital value £8 billion), the National Bus Company (running 14 thousand buses — capital value £5 billion), and the Royal Ordnance Factories (£3 billion). The chief problem with privatising these firms is the same as for BT: how to ensure a competitive industry structure. Unfortunately the forces working against competition are likely to be just as strong. British Airways, as we have seen, is due to retain its dominant position. A similar situation seems likely to develop with the National Bus Company, whose managers are pressing for a split into four large
companies instead of the many local units proposed by the Department of Transport.

Nevertheless, even if a monopolistic industry structure remains after privatisation, it need not be thought that we have simply exchanged a public monopoly for a private monopoly. This would be to ignore the possibility that privatisation reduces the power of producer interests. Unions are likely to become weaker, and the direct access of State industry managers to government will be broken. The consequence of weaker producer interests is that further liberalisation of industry becomes somewhat easier. Moreover, the framework of incentives promoting commercial operation is likely to prove more effective. Privatisation thus opens the door to, but does not guarantee, more competition and consumer orientated production.

Notes
2. See ‘Mr. Ridley’s Failure’, Financial Times, editorial, 8 October 1984.
3. See for example C. Whitehead, ‘Privatising British Telecom: the worst of both worlds?’, Public Money, September 1983, p.44

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PHILOSOPHERS FOR FREEDOM

MACNEILE DIXON’S ‘The Human Situation’

by C.D. Kemp

In the Spring edition of the IPA Review, we looked at John Stuart Mill’s relevance to modern-day thinking. The British philosopher, Macneile Dixon, is the second in our series “Philosophers For Freedom”. While his name is not well known today, in the 1930s he published a book which the New York Times described “... as perhaps the most important book of its kind which the 20th century has yet produced”. The author was the Regius Professor of English Language and Literature at the University of Glasgow from 1904 until his retirement in 1935.

The Human Situation by Macneile Dixon was my “best book” for 1984. It will also be the best book I will read in 1985 or, for that matter, in 1986, or almost certainly in any other year.

Published in the late 1930s, The Human Situation comprises the Gifford Lectures (renowned in philosophical circles) delivered at the University of Glasgow from 1935 to 1937. It is, to my admittedly limited knowledge, perhaps the greatest book of this century. It represents an intellectual achievement of a magnitude that staggers the imagination. The range of knowledge which this great work exhibits would seem to be almost beyond the compass of a single human being. But even that is not its most impressive feature. This all-encompassing knowledge is merely the foundation of a philosophical inquiry of extraordinary profundity and penetration, an inquiry enlivened by the humanity, wisdom, tolerance and humour of the author and by the magnificently sustained force and beauty of the prose.

The Human Situation, in essence, represents an irresistible assault on the dogmas and dogmatism — religious, political, social, scientific — to which today's world in particular seems peculiarly prone.

This is not a book which one picks up and reads from cover to cover in a few sittings. It demands far too much of the reader for that. It is a book that one takes down from the shelves and opens almost at random when one feels the need of the intellectual stimulus and enlightenment to be derived from association with a rare and great mind.

Nevertheless, a connecting theme shines through the pages. The theme is the author's abiding regard for the endurance and courage of the human species and, above all, his deeply felt concern for the individual person and his hatred of systems of thought which would confine the individual within the narrowly restrictive boundaries of some man-made ideology.

While he is not uncritical of religious dogmas, as of all dogmas, the author's sympathies are with the men of religion who accept the wonder and mysteries of the world, rather than with the rationalists and ethical idealists who dispense with the
magic and the miracles and all hopes of an existence beyond the present.

Macneile Dixon is, indeed, profoundly sceptical of all man-made systems of thought. "Not a philosopher of them all", he writes, "has, in my opinion at least, written the first sentence in the book of the human soul? While not uncritical of some aspects of the teachings of the Christian Church, he says that Christianity, "to its eternal honour has stood steadfastly for the sanctity of the individual". And he goes on, "To imprison the human spirit is the unpardonable sin, the attempt to make men automata, to force them into the same mould. No means will ever be found to induce human beings to surrender themselves, either body or soul, to a dictated felicity, to satisfactions chosen for them, whatever vulgar Caesars rule the world. And upon this rock all forms of regimentation, of standardised existence will eventually shipwreck. Every type of compulsion is hateful, always has been and always will be hateful, as long as men are men."

Macneile Dixon has a fierce contempt and hatred for all forms of collectivism, even those based on humanitarian considerations. "In their anxiety for human welfare, in their collectivist schemes, the sentimentalists have overlooked the individual man. They submerge him in the sea of their universal benevolence. But who desires to live in the pauperdom of their charity ... the last and greatest insult you can offer the human race is to regard it as a herd of cattle to be driven to your selected pasture. You deprive the individual of his last rag of self-respect, the most precious of his possessions, himself".

To extract the essence of Macneile Dixon's teaching, one must read and study him again, and then again. But this truly monumental work, *The Human Situation*, is so full of intellectual treasures, one to be found on almost every page, so rich in purple passages of inspiring, memorable prose, that the effort will be greatly rewarded. As the *New York Times* said at the time of its publication, 'To read this book is to share an exciting adventure'.

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Editor's Note: Macneile Dixon's *The Human Situation* is published by Edward Arnold, London, and Penguin, Harmondsworth.

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The Watershed for Big Government in Europe

In attempting to cut back the growth of public expenditure under his Government, Mr Hawke is following the policy stance adopted by many social democratic governments in Europe.

"The past year or so could turn out to have been a watershed, the time when the policy of welfare-state-cum-government-support-for-industry, the conventional wisdom of politics in Europe since the second world war, finally went out of fashion. From 1945 until very recently, this policy dominated the ideas of socialist and conservative parties alike. It included a commitment both to high state spending on social welfare, and to high employment via Keynesian demand-management. One result was that throughout Western Europe state spending tended to take a growing share of gross national product. Another was a steady increase in government jobs as a share of all jobs.

"Neo-conservatism-called Reaganism in America, Thatcherism in Britain, no-name-yet in Europe-has set out to stop, and if possible reverse, these trends. That is easier said than done...

"Governments almost everywhere in Western Europe are pushing programmes of economic austerity. Do not be misled by party labels. The governments of France, Spain and Portugal are all socialist in name, but each is committed to cutting public expenditure, trimming the state sector and "restructuring" overmanned old industries. Even Mr Papandreou, the Greek firebrand, has introduced a law requiring ballots before strikes by public-sector workers. Mrs Thatcher would approve.

"In northern Europe, the pattern is much the same, except in Keynesian, and so far economically successful, Sweden. Coalitions led by conservatives are in office in West Germany, Holland, Belgium, Luxembourg, Norway, Iceland and Denmark. Even Finland's Social Democrat-led four-party coalition belongs to the cost-cutting, anti-inflation variety.

"Following the shift of mood in America, as it often does, Europe has turned anti-government. Intellectual interest is swinging from the state to the private sector, from administration to entrepreneurship, to what ordinary people can organise for themselves. This is a more natural change in the United States. In America the doctrine, if not always the practice, of the free market is stronger than it is in Europe; obedience to authority of any kind comes less easily. But the anti-government shift has been happening, slowly, in Europe too".

"Is the post 1945 mould starting to crack?", The Economist, 22 Dec 1982.

And The U.S.

"Anti-business, no-growth attitudes had run their course — at least in the U.S.
"An unexpected shift to entrepreneurial and innovative businesses was occurring in the U.S. economy ... entrepreneurs in America are granted the rewards for their endless hours of hard work on more generous terms than in nearly any other developed nation.

"New jobs in America have not come from big government or big businesses. Nearly all of them have appeared in small and medium-sized businesses.

"Innovation and entrepreneurship ... should be encouraged by government tax and social policies, ... A growing public recognition of the importance of the market economy presents the West with an unprecedented opportunity for business leaders ... to assume a larger role in designing the economic landscape."

Henry Ford II
"Getting the World Back to Work"

And in Australia Too?
Mr Bob Carr, an ALP Member of the New South Wales State Parliament, argued immediately after the December 1 Federal Election that the Hawke Government must take a stronger line on public sector growth. Mr. Carr was recently appointed Minister for Planning and the Environment in the Wran Government.

"These days any government that allows itself to be portrayed as high-taxing and big-spending is going to be vulnerable....

"In 1983 there were 17,875 new permanent appointments to the public service, an increase of 23.4 per cent on the number appointed in 1982.

"How has this increase in Commonwealth employment advanced equity in our society or promoted what must be Labor's central goal, a reduction in poverty? This is the test that must be applied to all future public sector expansion.

"The hallmark of the second Hawke Government must be a much more critical examination of the public sector. It is a tribute to Mr Hawke's statesmanship that he was prepared to lock his Government into this".

Bob Carr, M.P.
The Australian, 3 Dec, 1984.

PROMETHEUS

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