To Our Readers

The IPA Review has been described as Australia's leading journal of free enterprise opinion. We believe this latest issue amply justifies this judgement. The Review now spans a greater range of topics — from labour markets to foreign policy, from public service superannuation schemes to school text books.

The last issue of Review was a landmark, with its enlarged format and wider distribution. Judging by the wide media coverage it received, it made a significant contribution to public debate. This Review starts a new series of features. Regular columns will be written by John Stone, the IPA's Senior Fellow, on “National Issues” and Professor Harry Gelber, a distinguished academic, on “Defending Australia”.

Selling the IPA Review on newstands has brought us into contact with new readers and subscribers. There are undoubtedly many more who would welcome the opportunity to read our work on a regular basis. Subscription forms are provided on the last page of the Review.

Rod Kemp
Editor

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Contents

Editorial
Time for a “Grace Commission” 3

Commentary
Big Government: Should it be unconstitutional? 4
The Flag: Tearing Australia apart 4
Interfering Itch Part 3: A regulatory absurdity 5
Tertiary Fees: Senator Walsh shows the way 5
Rod Kemp

Columns
National Issues 6
John Stone
Focus on Figures 20
Jacob Abrahami
Defending Australia 33
Professor Harry Gelber

Tax Reform
Through the Tax Reform Maze 10
G. Bascand, J. Cox & Professor M. Porter

Industrial Relations
A Comparison of Australian and Japanese Labour Markets 14
Alan Henderson
The Hancock Report and Human Rights 17
G.O. Gutman

Education
Is our School Curriculum Out of Control? 23
Peter McGregor

Foreign Policy
Freedom Makes a World of Difference 26
Dr. Ken Baker
The UN: Corruption of an Ideal 35
Peter Samuel

Public Authorities
The Cost of Price Surveillance 40
John Hyde

Philosophers for Freedom
Joseph Schumpeter and the Supply Side 43
Professor Wolfgang Kasper

Historical Document
Menzies’ Forgotten People 47

Book Review
A History of Government Failure 50
Dr. Denis M. White

IPA News
Establishment of IPA States’ Policy Unit 53

Forms
Subscription Advice 55
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EDITORIAL

Time for a
“Grace Commission”

The inability to generate any widespread community support for tax reform comes down to one key point — the Australian people are much more concerned about the overall burden of tax than about how this tax is collected.

In fact, tax reform and expenditure reform cannot be separated. The chief reason why tax reform has become such a pressing issue is the explosion in public sector spending over the last ten to fifteen years. As the graph in Jacob Abrahami’s “Focus on Figures” (page 21) shows, major distortions to the tax structure can result in a relatively short period of time from loose expenditure policies.

Our political parties have been productive in developing tax reform proposals — “to rearrange the deck chairs” — they have been much less effective in tackling the central issue, the need to wind back the overall share of government and thereby deliver what the Australian people really want, significant reductions in taxation. In short, Australia lacks a comprehensive programme by any political party to cut the overall burden of taxation, which is destroying incentives and discouraging enterprise.

What we need now, and certainly in time for the next election campaign, is for our political leaders to tell us by how much they are prepared to cut the real level of taxes and the processes by which this goal will be achieved.

A Grace Commission

An essential part of such a programme would be the establishment of an enquiry into public sector waste and efficiency along the lines of President Reagan’s Grace Commission.

In June 1982, the President requested a leading businessman, J. Peter Grace, to establish a commission entitled the “President’s Private Sector Survey on Cost Control in the Federal Government”. Peter Grace enlisted the support of over 160 senior business executives and 2000 volunteers. After 18 months work they produced a report with 2428 specific recommendations on how to achieve $US 424 billion of savings over a three-year period. These savings amount to some 13 per cent of the US budget. The Grace Report, let it be noted, was not about cutting the scale of government services, it was concerned with reducing waste and inefficiency.

There is ample reason to think that a survey of the Commonwealth public sector in Australia could show similar percentage results. Much of this sector is protected from market disciplines — “the bottom line” as it is called by Mr. Grace — and has had ready access to guaranteed increases in funds year after year. The pressures which force the private sector to seek efficiency and cost savings simply do not exist to any great extent in government organisations.

Mr. Hawke, in response to demands by business to cut government spending, has asked the obvious question — where? The only way this question can be sensibly answered is on the basis of a comprehensive study along the lines of that provided by the Grace Commission. There is little doubt that the business would respond to a request by the Prime Minister to establish a “Grace Commission”.

The tax burden will undoubtedly be a key issue at the next Federal election. An announcement by the Prime Minister calling on businessmen to assist in a Grace-type Commission would be a most effective way to demonstrate and implement the Government’s commitment to fiscal responsibility and restraint.
**IPA COMMENTARY**

**Big Government: Should it be unconstitutional?**

There seems little doubt that new approaches will be needed to contain the growth of government. As mentioned in the editorial a “Grace Commission” would be one such step. Another would be a constitutional amendment to limit government expenditure. This approach was given support by a senior member of a U.K. policy think tank when recently I spoke with him. He pointed out that this option was not available in the U.K., which does not have a written Constitution, but would possibly be suited to Australia which does.

Our advocates of smaller government in the political arena have showed a surprising lack of interest in taking action along these lines, particularly in view of the fact that in the United States — which also has a written constitution — the promoters of the Balanced Budget Tax Limitation Constitutional Amendment are close to success, roughly 95 per cent of the way, according to Washington correspondent, Peter Samuel.

He reports that 32 out of a necessary two-thirds or 34 State legislatures have voted in its favor, and there is active consideration of the measure in four more States. In Michigan and Ohio the measure has been passed in the State Senates and a close vote is expected in the lower houses. Washington State and Montana legislatures are also considering it.

The proposed U.S. amendment would require that total outlays are no greater than total receipts. It will also mandate that receipts for any year shall not increase by a rate greater than the increase in national income in the preceding calendar year.

...and an Australian proposal

A proposal by Sydney barrister, Mr. Bryan Pape, has been brought to my attention. At a seminar held by the IPA (NSW) he argued that two questions would need to be answered in a referendum.

- Do you favour a law to amend the Constitution by limiting the power of parliament in peacetime to spend no more than 25 per cent of the gross domestic product?
- Do you favour a law to amend the Constitution which requires the parliament in peacetime to balance total outlays with total receipts?

The accompanying legislation, he argued, would allow for the constitutional limitations on expenditure to be suspended during any prescribed national emergency.

It has to be said that it is highly unlikely that any Labor government would wish to tie its hands with such an amendment. But given the numbers of lawyers within the ranks of the Liberal Party, surely this is one issue that could be developed by the new leadership.

**The Flag Debate: Tearing Australia apart**

Speaking in September on the ABC programme “Clive James at Home”, Phillip Adams acknowledged that the proposal to change the flag “would be one of the most socially divisive issues we have ever looked at” in Australia, thus, in effect, giving support to one of the key arguments for retaining the flag, mentioned by John Stone in his column on page 6 in this *Review*. Yet, despite the fact that it would divide the nation, Adams continues to advocate the change of the flag: “Isn't it time we pulled the flag down, reconsidered it and reconsidered ourselves as a nation”.

The exchanges between Clive James and Phillip Adams symbolise, to my mind, a major problem Australia has with certain articulate sections of its intelligentsia, who, incidentally, often appear to be advisers to governments. The vast majority of Australians are not suffering from a perpetual identity crisis, nor are they ambivalent about the nation's past or its achievements. They, unlike the Phillip Adams of
this world, see no need to "reconsider" themselves as a nation. Indeed, like Clive James, they find the idea of repudiating the past obnoxious. There is some irony in all this. Phillip Adams helped formulate the motto “Living Together” for the Australian Bicentenary.

**Tertiary Fees: Senator Walsh shows the way**

Free tertiary education has long been touted as one of the great reforms of the Whitlam era. It is perhaps only fitting that the current Labor Government should be prepared to blow the whistle on the inequities that this has created. In an incisive speech at the National Press Club on July 10 1985, the Minister for Finance, Senator Walsh argued:

"... I find the proposition that anyone is entitled to receive that service without any charge, regardless of their personal, prospective or parental income, unconvincing. When it is known that the $30,000 service is heavily skewed in favour of those already relatively advantaged the proposition becomes even more suspect. Free university education is a highly regressive outlay. A marginal choice to maintain that regressive outlay and neglect the needs of poor children would be morally indefensible — a Social Darwinist rather than a Social Democrat value judgement”.

"What I was contemplating earlier this year was a system that would have fully exempted all students from families with a taxable income less than $22,300, partially exempted households with incomes up to $28,000 and recovered 15 per cent of recurrent costs from higher income households. The charge for a full-time university course would have been about $1,400”.

Senator Walsh went on to propose a loan scheme. Students would be obliged to repay the loan once their taxable income reached a reasonable level. He said that such a scheme would reduce budget outlays by $325 million in a year and the proceeds could be applied to improving various welfare benefits and educational allowances. The Liberal Party has yet to develop its policy on tertiary fees. Professor Michael Porter pointed out in the *IPA Review* Winter 1984 some of the advantages of a deregulated system of tertiary education. Senator Walsh’s proposal is a step in that direction.

**Interfering Itch Part 3*: A regulatory absurdity**

The *IPA Review* has regularly pointed to the problems caused by excessive regulation. Erosion in employers’ rights to hire, fire, and otherwise organise their business have, if anything, escalated in recent years. The Arbitration Commission’s decision in December 1984 on termination changes and redundancy, the advent of new government organisations such as the Human Rights Commission and the various Equal Opportunity Commissions represent further sources of regulation on employers.

One absurd, but probably inevitable, consequence of this is that among the plethora of restrictions laid down by our expanding league of regulatory agencies contradictions will happen. How a regulatory nightmare can occur is demonstrated by the case of a South Australian employer who found himself in the position of having to defy the Human Rights Commission in order to uphold the law. Because State regulations prevented women from working in lead processing areas the company had to replace the women with men. This led the Equal Opportunity Commission of South Australia to appeal to the Human Rights Commission; it obtained an interim order against the retrenchment of the women on the grounds that this would breach the Federal Sex Discrimination Act.

Is the employer going to be increasingly squeezed between trade union-type demarcation disputes among regulatory agencies?

Rod Kemp

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*See also IPA Review, Winter 1983 and Summer 1985.*
The Flag

A funny thing happened on the way to the Bicentennial. That, you may think, is a good thing, since there seems likely to be little else amusing about that increasingly divisive occasion.

In mid-July a group of "concerned" citizens launched a campaign entitled Ausflag under the patronage of Mr. Kerry Packer's Bulletin magazine. Its chief feature is a contest, with monetary prizes totalling some $90,000, for designs for an alternative flag to that which nowadays floats over our country.

As its contribution to this deplorable initiative, the Australian Government (in fact, the Prime Minister's own Department) has provided $3,000 so that the Ausflag committee of self-appointed busybodies can post its propaganda into schools throughout the length and breadth of Australia.

$3,000 is doubtless a small sum. Government Departments in Canberra (and in the States) waste that amount — and more — every day in one way or another. On that basis one can almost hear Ministers saying that critics of this largesse from Canberra are talking merely about principles.

As for the Bulletin, one can only marvel that a journal whose history is virtually synonymous with that of the Australian Federation could have so forgotten that history as to lend its name, its columns and its support to this quest for a new flag to replace one with which the great majority of Australians is perfectly content.

When I say "the great majority of Australians" I include not merely those of Anglo-Saxon descent but most of the many others — and their children — who have been welcomed to our shores since World War Two. The fact that a small band of malcontents among the ranks of the latter, as among those of the former, would like to cut all ties with the country (Britain) which most of them seem most to love to hate, should not blind us to the fact that such malcontents speak for nobody but themselves. That they should seek (with the help of the Bulletin) to make up for in noise what they lack in either numbers or, still more importantly, force of argument, is neither here nor there.

The fact is that our flag has served us well for over 80 years and, in the absence of spurious agitations of this kind, would go on doing so for another 80 (and, I trust, beyond). Some few sad minds appear to see in the Union Jack which reposes in its corner an affront to their personal hatreds of Britain and the British. Most Australians however see in that nothing but a reminder of that era of our history when six Colonies were founded, grew to adulthood and were welded together to form our Commonwealth.

It is an era in which most of us take pride. To suggest that today it in some way symbolizes a continuing colonial status is sheer nonsense; to dignify it beyond that says little for those at the Bulletin who embarked upon this enterprise.

Some people have sought to draw some analogy with the Canadian experience. There, the hatreds of Canadians of French stock (principally in the Province of Quebec) for those of British stock led among other things to the substitution of the Maple Leaf flag for its predecessor bearing that same symbol of the British contribution to French-Canadians' hated past. In fact, however, that analogy is more revealing of the similar hatreds on the part of those who advance it here than it is of any similarity between the histories of Canada and Australia, which — thank goodness — has never laboured under the misfortune of a "French-Australian" division within its people.

Indeed, I would go further and say that, if by some fell chance those urging a new flag upon us were to succeed in their designs, no single event
would do more to turn the hands of one Australian against another’s, in effect creating those very divisions which, in the case of Canada, the new flag was designed to solve (or at any rate palliate).

Against that background, what I continue to find astonishing about this whole matter is the abject lack of leadership emanating from the Government upon it. The Prime Minister has it in his power to put an end to this whole damaging and nationally divisive episode tomorrow by simply stating publicly that as far as he, his Government and his Party are concerned, there will be no new flag for 1988. Given in particular his newly-found penchant for Addresses to the Nation, he might note that probably no other such Address he is likely to make would be received with such widespread and resounding applause. The logo of the Australian Labor Party, about three quarters of which today is taken up by a depiction of our current flag, would then serve as an admirably appropriate backdrop to such an Address.

Where does the Government — and the Prime Minister in particular — stand on this matter? Apart from stating in a recent interview with Mr. Max Walsh that he is “not opposing any change of the flag”, will he not be more specific? For that matter, has the Opposition so lost its collective tongue that it will not ask him? — and continue to press for a response?

Youth Unemployment

This issue of the Review carries a commendable article by Mr. Alan Henderson on Youth Unemployment in Australia and Japan.

The unemployment rate among young people in Australia, at close to 25 per cent, is more than three times that for the rest of the population. Instead of admitting that the basic cause is that relative wage rates for young people are too high compared with those for adults, and addressing that basic cause, the Government has chosen rather to place another series of band-aids on the symptoms. It has described any lowering of youth wages “as a backward step” in the cure of youth unemployment. Ironically, the band-aids it has applied in effect do take that “backward step” of lowering youth wages by rendering the cost of these so-called “traineeships” to employers only $70 per week rather than amounts of up to more than double that which they would otherwise have to pay. These verbal contortions are designed, of course, to avoid offending the trade union bosses, who nevertheless are continuing to make unco-operative noises.

In the Shann Memorial Lecture in Perth last August I touched on this question of youth unemployment. At that time I said, inter alia, that having connived at putting young people (in particular) out of work through their continued support of our present system of wage determination, our political “leaders” then come forward with expensive, incredibly bureaucratic and utterly inefficient “programs” to gain votes by appearing to redress — but at taxpayers’ expense — the consequences of their actions, or inactions, as the case may be.

It is always nice — in one way — to have one’s observations so rapidly demonstrated, and in this case with such comprehensive accuracy. It would however have been even nicer had the Government in this case confounded those observations by tackling the problem of youth unemployment at its roots rather than merely throwing more hundreds of millions of dollars of our money at it each year.

Some members at least of the Government clearly do recognise the futility of this course, and know very well that no real solution to the problem of youth unemployment can be found without at least relaxing the present inflexibility of our system of wage determination. Hence one must ask why that course has been rejected.

The answer is not far to seek. Any such sensible approach would be anathema to the trade union bosses whose writ these days runs so strongly in the councils of the Government. Presumably the sons and daughters of those gentlemen are not among Australia’s 140,000 unemployed 15-19 year olds. Ability apart, no doubt trade union nepotism sees to that.

The Accord

During the 1983 election the Australian Labor Party gained a good deal of political mileage from pressing Mr. Fraser and his colleagues on what they proposed, in due course, to put in place of the “wage pause” then obtaining. The latter had no very ready responses, and the Labor Party proposals for the so-called Prices and Incomes Accord, economically spurious though they were, nevertheless easily prevailed if only by default.

The Accord was elevated to even greater prominence within the Government’s economic
policy tool-bag by the proceedings at the National Economic Summit in April, 1983. It would be fair to say, indeed, that it became the foundation stone upon which the Government's whole castle of economic dreams has been built up over the past two years or so.

In the wake of the sharp depreciation in the A$ earlier this year and the rise in domestic prices induced by that, there seemed to be something of a falling out between the two "partners" in the Accord — the Government and the Australian Council of Trade Unions (A.C.T.U.) — over the question of discounting the Consumer Price Index, for purposes of the wage indexation processes, for that rise. The A.C.T.U. said, without equivocation, that full indexation of award wage rates was non-negotiable and that any departure from it must mean the end of the Accord.

There would have been many a dry eye about that. In the end, the Accord will continue. So — according to the terms of the deal between the Government and the ACTU of which that forms a part — will the price we are now all going to be required to pay for it.

**Foreign Aid**

Last July we witnessed in Australia, as in many other countries, a further flowering of pop politics akin to the Nuclear Disarmament Party's performance in last year's Federal election. I refer of course to the so-called Band Aid extravaganza to raise funds for the starving people of Africa.

Much could be said about that episode, far from all of it in praise of those concerned. One aspect to have caught my own eye, however, was the size of the sum raised in Australia (just over $4 million). This relatively small sum has drawn some adverse comments in some quarters.

Let me say straight-away that I personally did not contribute to this Appeal. Quite apart from my strong doubts about the rationality of the whole exercise — well summed up at the time in the excellent editorial ("The Children's Crusade") in the *Australian Financial Review* — I had another reason for that decision.

The fact is that all who pay taxes in Australia — and particularly those who pay taxes at the higher marginal rates — have every justification for feeling that they have already made a large contribution to foreign aid, the cost of which to the Australian Budget in 1985-86 is estimated to be $998.8 million. Why therefore should they, so to speak, pay twice?

"Aid fatigue" of this kind is common enough today among taxpayers in donor countries all over the world. It is, in a way, a particular example of a more general phenomenon brought about by the increasing encroachment of government upon all our lives.

In the days when there were no Offices of Child Care, for example, private citizens donated funds to establish, endow or maintain orphanages. Before governments extended their benevolence — and our money — to establishing or maintaining Nursing Homes or other establishments for the care of the aged, families felt a duty to undertake that role. Sometimes, of course, they failed to discharge that duty, or for other reasons old people in need of such care failed to receive it. Nevertheless, there was no expectation that governments (i.e. the general body of taxpayers) would fill the gap.

Now that they do so, not only in that but in many other ways, we are experiencing what the insurance industry has always known as the problem of "moral hazard" — the process whereby action to insure against a particular eventuality tends to increase the risk of that eventuality occurring, or being brought about. For example, people who have their houses and their contents insured may, for that reason, take less strict precautions against fire, theft and the like.

Similarly, those Australians who look forward to being catered for in their old age by the Welfare State may well see less need to save for that purpose themselves. In Japan, where such Welfare State provisions are limited or non-existent, it is remarkable to observe both the manner in which people still save to provide for their old age and the manner in which the family still operates also to provide that care and sustenance for the elderly.

In Australia, by contrast, now that governments do so much — with our taxes — which private giving catered for previously, can we be surprised if appeals, such as that for Band Aid, for us to pay twice over should fall increasingly on deaf ears? I think not.

**South Africa**

Others will doubtless have been as bemused as I about the recent flurry of Government actions against South Africa. One of the more silly aspects
of that flurry relates to the so-called “code of good conduct” which Mr. Hayden and his Department of Foreign Affairs have been seeking to bully Australian corporations having interests in South Africa into accepting.

It might first be noted that there can be no real objection to the Government’s decision to withdraw our Trade Commissioner Service from Johannesburg. One might only hope that, after noting that its departure makes no significant difference to trade between the two countries, the Minister for Trade (Mr. Dawkins) might draw the appropriate conclusion and wind up the Trade Commissioner Service as a whole. That would save taxpayers around $30 million a year and — except perhaps in State-trading countries such as the U.S.S.R. or China — would leave our trading performance largely unaffected. It would indeed both encourage and allow our businessmen to get on with doing what they are supposed to — and generally do — know about, namely selling their products under their own initiative.

One could go further and say that, necessary consular facilities aside, there is really little point in maintaining an Embassy in South Africa, just as there is really little point in doing so in half the other countries where we are represented at Ambassadorial or High Commissioner level. If therefore the Government were to wish to make a “demonstration” against South Africa in this area also, there would be little real grounds for concern — other than in the Department of Foreign Affairs, which might fear the example would be catching.

It would be quite different however for the Government — or some of our busybody trade union bosses — to interfere further with the way in which Australian corporations conduct their affairs in South Africa. True, our Government — and its associates in the trade unions — clearly do not understand that in Australia “one man’s wage increase is another man’s job” (to quote Mr. Simon Crean’s father when the latter was Treasurer of the Commonwealth). It is therefore probably not surprising that it should similarly fail to see the relationship between costs Mr. Hayden now wishes to impose upon Australian corporations operating in South Africa and levels of employment (of black Africans) those corporations will be able to undertake there.

Meanwhile we doubtless cannot expect to see much light shed on this complex matter by the busy band of United Nations rabble-rousers with which, for some reason best known to himself, Mr. Malcolm Fraser has chosen to become associated. At least throughout his Prime Ministership Mr. Fraser did strongly argue the connection between costs and levels of employment in Australia referred to earlier. It will be interesting to see whether his views remain consistent in their new and internationally staged environment.

U.S. Economy

It is not only in South Africa that the international scene is darkening. The U.S. economy is slowing down, and with it the world economy. From a growth rate of Gross National Product of 6.8 per cent in 1984, the U.S. economy is now officially forecast to grow by only 3 per cent in 1985, and private forecasters — including, for what it is worth, this one — are in fact expecting an even lower figure. Meanwhile, Europe has been picking up a little and Japan continuing to move ahead although less strongly than in 1984. Much of this recovery outside the United States however has been export-led. Generated as it has been by the strength of the U.S. economy, it is almost bound to slacken as that great motor slows.

In the background there remain the still unsolved — indeed as yet largely unaddressed — problems of the U.S. “twin deficits” — the Budget deficit and the deficit on the current account of the balance of payments. The latter, now running at around U.S. $150 million per annum, is leading to a growth of U.S. indebtedness to the world, or other forms of financing, at the same annual rate. Moreover, as the growth of demand in the industrialized world slows down, the developing nations and other primary product exporters such as Australia can expect to see their markets, and the prices they command in them, grow more slowly or even decline. The U.S. banking system, already beset by the consequences of past injudicious lending to non-creditworthy borrowers in Latin America and elsewhere, may consequently come under further strain at a time when its lending within the U.S.A. itself in such sectors as energy and agriculture is also giving rise to problems.

1985 is of course some two-thirds of the way behind us. The year in prospect, 1986, may not be an easy one.
Through the Tax Reform Maze

Taxing The Threshold

G. Bascand, J. Cox and Professor M. Porter

In its September 1985 tax package the Government has made a welcome start in reducing the high marginal tax rates in Australia. But it has not solved the problem. In 1987-88, when the new 24-29-40-49 rate scale is fully in operation, around half of all taxpayers will face marginal rates of 40 per cent or more. Unless further action is taken, this percentage will increase thereafter by around 4 per cent of taxpayers annually. Further reform of the income tax rate scale will be needed by the late 1980s. According to the Centre of Policy Studies (COPS) at Monash University, removing the tax threshold is the only way by which high marginal tax rates can be reduced on a lasting basis.

This article summarises the arguments for removing the tax threshold and responds to some of the criticisms which have been made.

Our Summit proposals included the removal of the tax threshold and the dependent spouse rebate, and the introduction of tax rates of 20 per cent on income up to $20,000, 30 per cent on income from $20,000 to $35,000 and 40 per cent on income above $35,000. The removal of the tax-free threshold would make it easier to collect taxes on a withholding basis, thus taxing many payments which currently escape the system. These measures to control tax evasion and avoidance could be supplemented by an increased use of random as well as systematic tax audits. There would be compensatory measures for pensioners, beneficiaries and families with low incomes that are discussed in greater detail below.

The current weighted average marginal tax rate of 43 per cent takes account of the income tax rate scale and also indirect taxes and the abatement rates on the dependent spouse rebate. The COPS plan would reduce this rate to 35 per cent. Under the Draft White Paper's Option C, the weighted marginal tax rate would be 41 per cent.

Although we cannot be precise as to the magnitude of the effects, there is a growing body of evidence to suggest that reductions in marginal tax rates offered by the COPS proposal would stimulate economic growth significantly. The Prime Minister has stated that reduction in marginal tax rates is an important objective of tax reform; implementation of the COPS proposal would result in a far more substantial reduction in marginal tax rates than would implementation of Option C in the Draft White Paper.

It is natural to equate poverty with low income. But some persons who earn low income belong to families with considerable incomes. Examples of such persons include income splitters, part-year earners, secondary earners and some tax evaders. At present such persons are treated generously by the tax system which exempts the first $4,595 of everybody's income from tax.

Many persons who have low incomes this year can look forward to higher incomes in subsequent years. Examples of such persons include young people who are just starting their careers and farmers and businessmen in a bad year.

Also, incomes and packages are what they are, in part because of the progressive income tax rate structure. If marginal tax rates were lower, the incentives to evade and avoid would be less and businessmen in particular would choose to earn more income in taxable form. And to the extent that tax reform creates windfall gains to certain high income earners, these will be competed away (quickly in many cases) through the normal
operation of market forces.

How would pensioners and beneficiaries fare under the COPS tax reform plan?

To compensate income support recipients for the abolition of the tax threshold, we suggest that all pensions and benefits be made non-taxable and pension income-free areas be increased by $20 a week. In addition some reduction in the pensions and benefits income test rate could be considered, at modest extra cost, in the context of major overall tax reform.

... and low income working people?

Under the COPS plan low income persons and families would be provided with social security payments to ensure that they were not disadvantaged by the removal of the tax threshold. Eligibility for this supplementary programme would depend on family income. Thus a low income person from a family whose aggregate income is high would not qualify for the “cashed out” threshold.

One version of the supplementary income tested programme could work as follows:

- Single persons — assistance of $920 a year would be withdrawn at 30 cents in the dollar for income above $15,000.
- Couples — assistance of $1,950 would be withdrawn at 30 cents in the dollar for combined income above $16,000.
- Couples with children — assistance of $1,950 plus $730 per child for dependent children would be withdrawn at 30 cents in the dollar for family incomes above $13,500.

The first round distributional implications of the COPS plan incorporating the above compensation package are as follows:

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<th>First Round Distribution Consequences Centre of Policy Studies Income Tax Proposal Increase in Disposable Income</th>
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An important objective of policy in recent years has been to reduce the tax burden on persons earning average weekly earnings or slightly less than that. One result of this policy has been steeply increasing marginal tax rates just above average weekly earnings. At $19,500 under the present income tax scale, the marginal rate increases from 30 per cent to 46 per cent. Unless government expenditure can be reduced, persons at or below average earnings will not be the immediate beneficiaries of a repair job on the income tax scale (although their incentive to increase income will be improved).

The weighted average marginal tax rate under this arrangement is 35 per cent (compared with 43 per cent at present and 41 per cent in Option C of the Draft White Paper on Taxation).

Would the COPS proposal reduce marginal rates at high income levels but increase them at lower income levels?

The most widespread and most fundamental criticism that has been made of the COPS plans is that effective marginal tax rates are increased over the range where the income tested programme would be phased out. This is seen as both an impediment to output growth and as rather unfair.

Take the efficiency point first. Suppose that society decides that a given level of assistance should be provided to persons with low incomes. This assistance can be provided either on a selective (income tested) basis or universally. If assistance is provided universally, tax rates for the general population have to be higher than otherwise to finance the increased level of government expenditure. Income tested programmes allow lower tax rates in general but may lead to high effective marginal tax rates in the abatement income range. Which of these alternatives involves the greater loss of output and economic efficiency?

Our research suggests that the selective approach is to be preferred. There are a number of reasons for this. First, our proposals are designed as far as possible to place the high effective marginal tax rates in areas of the income distribution where there are relatively few families and individuals. Because of the less progressive income tax rate scale, most taxpayers will face a lower marginal rate under the COPS proposal than at present. Since the initial tax rate under the COPS proposal (20 per cent) is below the abatement rate applying to the dependent spouse
rebate, most spouses would also face a reduced marginal rate.

It is true that the economic behaviour of low income earners appears to be rather more sensitive to post-tax incentives than that of higher income earners. Our estimates take account of this. But if a person earning $50,000 a year decreases his work effort by 1 per cent, the loss of output is $500. If a person earning $5,000 a year decreases his earnings by 1 per cent, the loss of output is only $50. This suggests that we should pay particular attention to marginal tax rates for high income earners if our objective is to have the largest possible “cake” (and therefore the potential for increased redistribution in the future). Effective marginal tax rates for low income earners should be the minimum consistent with the other objectives of government, including its redistributional objectives.

Is it unfair that the effective marginal rates for some low income earners should exceed those of high income earners?

Fairness depends on the distribution of the tax burden and hence average tax rates. Marginal tax rates are mainly relevant to considerations of efficiency. If society wishes to provide adequate incomes to pensioners, beneficiaries and low income earners while at the same time maintaining low overall marginal tax rates to encourage efficiency then high marginal tax rates over some areas of the income distribution are inevitable. And, as noted above, individuals can look forward to lower marginal tax rates once they get over the “hump” in marginal tax rates over the range where benefits are both paid and abated.

The design of compensation programmes is a complex matter as it involves a compromise between desirable but competing objectives. Except for families with children the abatement ranges under the COPS plans are relatively narrow. Moreover, effective marginal tax rates over the abatement range would usually be around 50 per cent. We conclude that the COPS plan is unlikely to significantly to worsen “poverty trap” problems, particularly if pension and benefit income test rates can be reduced in the context of overall tax reform.

Would the COPS plan be too generous to the rich?

It is true that persons with high taxable incomes would pay less tax under the COPS plan because of the less progressive income tax scales. But there are relatively few such individuals. Some 1 per cent of taxpayers have taxable incomes above $50,000. Most people with high levels of “true” income choose to receive large parts of that income in non-taxable form.

The COPS plan would alter this situation in three respects. First, the income tax base would be broadened as proposed in the draft white paper to encompass many forms of fringe income. Secondly, a reduction in marginal tax rates would encourage the rich to earn a greater percentage of their income in taxable form. A reduction in marginal tax rates might lead high income earners to assume a greater share of the tax burden, as appears to have been the case in the United States. Thirdly, removal of the threshold would limit both the advantages that high income earners obtain from splitting their incomes and their opportunities for doing so.

Concluding Comments

In taking up the challenge of tax reform, the Australian community faces a choice between stability and growth. Economic growth can best be promoted through a reduction in marginal tax rates. Although Australia is not a highly taxed country by international standards, marginal income tax rates are high in relation to this average tax rate. Because of the generous, individual-based threshold, marginal tax rates thereafter have to be steeply increasing to generate a given amount of revenue. Greater selectivity in the use of the threshold is the key to reducing marginal tax rates.

The various interest groups will argue that the groups they represent should not be adversely affected by any changes to the income tax rate scale. Ultimately the choice between stability and growth is a political one. In making this choice we all need to be aware that the cost of maintaining our present tax system or something like it is reduced economic growth and fewer opportunities for ourselves and our children.
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Leading U.K. conservative Roger Scruton recently wrote this about Quadrant:

Australian conservatism has had few articulate apologists, and no tradition of active dissent. The general temper of urban culture has not permitted the Antipodean to express the deep historical allegiance which he nevertheless continues to feel. Moreover, the academic world has been dominated by radicals — in particular by Manning Clark, whose historical writings have effectively expropriated Australians of their past, and persuaded a generation of teachers that the white ‘occupation’ of Australia was unjust, oppressive, and redeemable only by a programme of radical socialist reform.

In the face of the left-wing dominance of academic institutions and the media, it has seemed increasingly difficult to speak out in favour of conservative values. With a few notable exceptions, therefore, the Australian right has preferred to remain silent. Among the exceptions one of the most honourable is the monthly magazine **Quadrant**, now entering its 29th year of publication, and devoted to the analysis of social, cultural, and economic issues in the historical spirit of conservatism.

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A Comparison Of Japanese And Australian Labour Markets

Flexibility Versus Rigidity

Alan G Henderson*

In the 1960s the rate of unemployment in both Japan and Australia was well below the average for OECD countries. Japan has maintained its relative position by continuing to generate employment for more than 97 per cent of persons seeking work, whereas Australia's situation has deteriorated markedly since 1974. The rates of unemployment in 1984 in Japan and Australia were 2.7 per cent and 9 per cent respectively.

Wage Flexibility

A decade of high unemployment has focused attention on the rigidities of the centralised Australian wage determination system and a comparison with Japan highlights this factor because the Japanese wage system is very flexible. The release in May of the Report of the Committee of Review of Australia's Industrial Relations Law and Systems (Hancock Committee) has intensified debate on the question of labour market flexibility. The Hancock Committee reviewed evidence on wage flexibility and relativities and concluded that:

"There is little or no basis for the view that industrial regulation, by its effects on wage relativities, has had damaging micro-economic consequences.

Nevertheless, it would be an advantage if the tribunal had a greater capacity to vary relativities. This would involve giving less weight in setting wages for particular categories of labour, to comparative wage movements’’ (Volume 2, page 206).

The comparative studies reviewed by the Hancock Committee do not refer to Japanese experience and most did not explicitly address the linkage between wage flexibility and unemployment. Moreover, the comparisons made are frequently between Australia and the UK and US wage structures, none of which are particularly flexible by international standards. Grubb, Jackman and Layard analysed wage rigidity and unemployment in OECD countries and concluded that Japan and Switzerland exhibited the lowest degree of real wage rigidity, in contrast to Australia, the United States and the United Kingdom, each of which experienced a degree of real wage rigidity that was above the average for OECD countries. Thus Japan constitutes a more useful benchmark for assessing the flexibility of the Australian system.

In assessing the flexibility of relative wages

*The author is employed by the Treasury, Canberra. The views expressed are the responsibility of the author alone. This paper is an abridged version of Henderson, A.G. (1985), 'Japanese and Australian Labour Markets. A comparison of their Institutions, Structure and Performance', Pacific Economic Papers, No. 119, Australia-Japan Research Centre, ANU, Canberra. That paper was prepared while the author was assigned as Counsellor (Financial), Australian Embassy, Tokyo.


it is important to focus on the experience of groups that are most vulnerable in a weak labour market — youth and unskilled workers. The relative wages of both these groups have declined in Japan since the first oil shock and this has helped maintain their competitiveness in a difficult labour market. Between 1974 and 1982, in Japan an index of teenage/adult wage relativities declined by 5 per cent in association with a decline of 21 per cent in the number of youth in the labour force, whereas in Australia the number of youth increased by 16 per cent and there has been negligible change in the relative wages of young people. One measure of the relative wages of unskilled employees in Japan shows a decline of more than 7 per cent between 1973 and 1981, in contrast to experience in Australia where evidence for the period from the early 1970s to 1978 indicates a significant narrowing of the differential for skill. These trends have impaired employment opportunities for youth and unskilled workers in Australia.

The factors contributing to the flexibility of the Japanese wage structure include the following:

- A lower degree of unionisation, 30 per cent compared with 55 per cent in Australia.
- Company-based unions which place greater weight on profitability, firm survival and job security. The average membership of a Japanese union is 170 employees compared with 9200 in Australia.
- A small government sector accounting for 12 per cent of wage and salary earner employment compared with 30 per cent in Australia.
- Six-monthly bonuses which, together, normally account for more than a quarter of annual earnings.
- Synchronised annual wage negotiations in respect of standard rates of pay which are settled on a company-by-company basis in the private sector, and which take no explicit account of price increases; i.e. there is no wage indexation.
- An export-oriented manufacturing sector that concentrates the attention of key unions on the link between labour costs and international competitiveness.
- A flexibly administered minimum wage law that takes full account of market conditions.

**Youth Unemployment**

The sharp increase in unemployment among Australian youth has accounted for a disproportionate share of the divergence between the overall rates of unemployment in Japan and Australia. In 1983, youth unemployment averaged 4.5 per cent in Japan compared with 17.9 per cent (in August) in Australia. As noted, the demand for young Japanese workers has been enhanced by a decline in their relative wages which, in turn, has been facilitated by minimum wage legislation that takes full account of market conditions. As well, public sector recruitment in Japan does not appear to have impaired employment opportunities for youth in the way that it has in Australia.

In 1983, youth unemployment averaged 4.5 per cent in Japan compared with 17.9 per cent (in August) in Australia.

Supply-side factors also have contributed to the lower unemployment rate among Japanese youth. They include the following factors.

In the past decade, the earnings premium associated with educational qualifications has not changed significantly in Japan, whereas in Australia a significant decline in the premium for males has discouraged participation in full-time education and thus boosted youth participation in the labour force. A comparison with Japan suggests, in addition to the increased supply of graduates, the decline in the earnings premium for educational qualifications in Australia may reflect reduced confidence in the contribution of education to the productivity of workers and less faith in educational qualifications as a guide to useful work-related personal attributes.

The greater importance of educational qualifications in determining initial employment prospects in Japan has encouraged increased participation in full-time education in a deteriorating labour market and thus reduced the supply of young workers. The importance of educational success in determining initial job prospects contributes to a situation where, compared with Australia, Japanese education

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1 Norris, K., (1983), The Economics of Australian Labour Markets, Melbourne, Longman Cheshire. See Figure 6.4.

involves a much more competitive and time-consuming preparation for working life, and for a much higher proportion of the teenage population. The difference in standard school hours alone is such that 12 years of Japanese schooling is equivalent to about 15 years in Australia.

Japan did not experience sharp increases in the real value of junior wages and unemployment benefits comparable to those preceding the abrupt deterioration in Australian labour market conditions in 1974-75. In Japan the real wages of teenage employees increased by 4.5 per cent between 1973 and 1975 compared with 22.3 per cent in Australia.

Japan's unemployment benefit arrangements provide a stronger incentive for school-leavers to find and remain in employment. Entitlement to the basic benefit is restricted to persons whose previous period of work exceeds six months during the past year and, in principle, entitlement to the basic benefit terminates after 90 days for persons under 30 years of age.

Conclusion

The fundamental principle of the Japanese system of wage determination is the capacity of the individual employer to pay, whereas considerations of employee needs and equity are at the heart of the Australian practices of centralised award determinations, wage indexation and comparative wage justice. A comparison of the two systems points to the inflexibility of the wage structure as being an important factor contributing to the deterioration of the Australian labour markets' capacity to generate opportunities for job-seekers.
The Hancock Report and Human Rights

G.O. Gutman

The Hancock Committee, established in July 1983 to enquire into the Australian industrial relations law and system, has, in effect, recommended a strengthening of the existing centralised system. In doing so, it has failed to face up to key questions of basic rights and civil liberties.

The Hancock Report is a disappointing document both because of what it says and of what it fails to say. The Report conveys distaste for major reform and argues against it on the grounds that it is impractical and unnecessary. Its main initiatives for change, if adopted, would make the industrial relations system (“the System”) worse rather than better.

The Hancock Report renders a triple disservice to the cause of good government in Australia. Firstly, by asserting dogmatically that there are no practical alternatives to the existing centrally regulated System; second, by dismissing without analysis many novel suggestions put to them in evidence by witnesses; and third, by glossing over glaring inequities of the System and proposing changes which, if adopted, would aggravate them.

In fact reform is both practical and not unduly difficult. (The question of how it could best be achieved so as to improve industrial relations and make the labour market more efficient is taken up by the author in a longer article to be published in a forthcoming issue of Quadrant.)

Compulsory Unionism

The present article looks in the first instance at how the Hancock Report (“the Report”) deals with some questions of equity and civil liberties. These arise because the System restricts civil rights and freedom of choice for a large proportion of the Australian workforce. The restrictions stem from legal provisions in the Conciliation and Arbitration Act (“the Act”) and related administrative procedures which exert compulsion to join unions; restrict the freedom of choice on what union to join; and limit the right of workers to set up new unions through which to represent their interests within the System.

Compulsion to join has its legal basis in Section 47 of the Act which provides that “the Commission may ..., by an award, or by an order .... direct that preference shall, ... be given to such organisations or members of organisations as are specified in the award or order”. Preference moreover shall be given “whenever, in the opinion of the Commission it is necessary, for the prevention or settlement of an industrial dispute... (or) for the maintenance of industrial peace or for the welfare of society”.

Many employees, of course, are perfectly willing to join unions. Others would prefer not to. A survey some years ago revealed that 25 per cent of union members only joined because they believed their membership to be compulsory. They were, of course, not far wrong. Pressures are strong on employees to join unions. Refusal to join can be stigmatized as a rejection of mateship ethics and lead to ostracism and industrial action when unionists refuse to work with non-unionists. Section 47 of the Act adds to the pressures exerted by fellow employees the pressure by employers who have a mandatory obligation to discriminate against non-unionists. Commonly, the alternative to joining the union is to join the dole queue.

Section 144 of the Act provides an escape hatch:

“Where a person, upon application made to the Registrar in a prescribed form and manner, and payment of the prescribed fee,
satisfied the Registrar that the person's conscientious beliefs do not allow the person to be a member (of a union) ... the Registrar shall issue to the person a certificate to that effect'.

The prescribed fee means an amount equal to annual union fees. As for conscientious beliefs, these need to be of a religious or quasi-religious nature, forbidding membership of all unions and similar associations. Mere personal preference, dislike of unions, their leaders or political leanings do not satisfy the Registrar. Few people seek certificates — proceedings can be lengthy and costly and certificates only remain in force for 12 months.

The basic presumption of the law is plain: just as in times of war a citizen is drafted in the army, so in peace-time an employee is drafted into the union. Only when he can convincingly demonstrate problems of conscience may he be excused from union membership and allowed to get off with a fine equal to his union dues. It is odd that in Australia where conscription for military service has long been a burning issue, conscription into unions is accepted as a matter of course. In a society where mandatory discrimination against non-members, say of the Anglican Church or the Australian Native Society, would be regarded as an intolerable infringement of human rights, it seems widely accepted that non-unionists should be discriminated against except to the extent that they hold "conscientious beliefs" and submit them for scrutiny and judgement by the Registrar.

Far from proposing abolition of compulsory unionism the Report proposes to streamline the procedures for its enforcement.

The Hancock Committee thinks that for persons to have to join unions even though they disapprove of their activities "does not bear heavily on the issue of civil liberties". Far from proposing abolition of compulsory unionism the Report proposes to streamline the procedures for its enforcement.

Not only do many employees have to join unions willy-nilly but they are not allowed in most cases to choose which union to join. Unions jealously guard their turf and the Arbitration Commission can and does issue direction on what unions are entitled to enrol (or, as often happens: to conscript) which classes of employees.

If employees don't like it and would prefer to set up their own union e.g. a single union to take the place of the dozen or so that may be active in a particular workplace — again the System stands in their way. No new union can, as a rule, be registered if one already exists to which employees can, in the Registrar's view, "conveniently belong".

The Hancock Committee has no proposals for reducing the tight regimentation of the workforce and indeed commends "the conveniently belong" criterion. It favours amalgamation of unions to streamline the System, rather than measures to make unions more responsive to the wishes of employees by allowing them a choice of what union to join.

Who Judges the Judges

Where economic sectors are divorced from market forces and perform badly, their regulatory hierarchy often alleges that what is needed is not deregulation but self-regulation. The history of the stock-broking, accountancy and medical services industries affords many instructive examples. The industrial relations industry is no exception. Presently the existence of the Industrial Division of the Federal Court provides a degree of constraint on the autonomy of the Commission. Even though the Court like the Commission is subject to the provisions of the Act, at least its decisions are guided by the ordinary principles of civil law.

As against that, the Commission's decisions are governed by procedures and principles described by one of the commissioners as "accommodative arbitration". As the Hancock Report puts it, the Commission operates "within wide areas of discretion bounded only by vague 'fences' such as public interest, the pursuit of industrial peace and regard for the state of the economy. It is common knowledge that different arbitrators have — with complete propriety — evaluated quite divergently the various criteria; and this, understandably, has eroded any image of absolute standards in the System".

To put it more plainly, the Commission's arbitrators act as wheeler-dealers engaged not in judging according to the law but seeking to arrive at "acceptable" decisions. Judgements and awards must be reformulated until they become acceptable
to the strongest party, that is the trade unions.

The Hancock Committee lends its support to an audacious proposal put forward origiially by Sir John Moore, the Commission's President, under which total "self-regulation" is to be achieved by the Commission. This is to be done by handing over the functions of the Industrial Division of the Federal Court to a new "Labour Court" consisting of the legally qualified personnel of the Commission (which is to be renamed "Industrial Relations Commission").

In support of this extraordinary proposal the Report quotes with approval the view of the Department of Employment and Industrial Relations to the effect that the creation of such a Labour Court would "give the parties greater confidence that expert knowledge of industrial relations was available to the Court". The Report fails to explain in what way and in whom the spectacle of the Commissioners donning wigs and sittings as judges could be expected to inspire greater confidence.

The Report also reviews the more moderate proposal for allowing some legally qualified members of the Commission to serve as judges on the Federal Court. The Report notes that this might "be seen to preserve a degree of independence between the arbitral and judicial functions by retaining within the Court judges who were not directly involved in the arbitral processes". The Committee's final recommendation for a Labour Court, entirely staffed by Commission members, dispenses with the notion that such a degree of judicial independence needs to be preserved in industrial matters.

Unions and the Law

Creation of such a Labour Court would provide legislative endorsement to the outcome of a long process which has effectively placed trade unions outside the law, allowed them to ignore conditions of awards with impunity and to bend the Commission to their will. The creation of a Labour Court with final jurisdiction in all industrial matters would formally place the unions beyond the reach of the ordinary courts. A situation would thus be created where in law as well as in fact one law applies to unions and another to the rest of the community.

A careful reading of the Hancock Report, moreover, reveals that this final apotheosis is no incidental result of the Committee's zeal for streamlining the System and for holding reform at bay. The Report makes it amply clear that the Committee is genuinely of the belief that trade unions and their membership are a cut or two above the rest of us and deserve to be treated differently. In discussing the question of industrial sanctions and why unions refuse to comply with the umpire's decision the Report states:

"If we ask why litigants and sportsmen usually accept the adjudicators' decisions, we find part of the answer in the ethics accepted by the disputants; part, too, lies in their relative weakness ... by contrast, trade unions are, to varying degrees, centres of power: they replace the powerlessness of individual workers with collective strength. It is a mistaken view of the pluralistic society to assume that every 'subject' is equally dominated by the might of the State and its arms of enforcement. Some may wish that things were different: but vain hopes are no basis for effective policy".

In these words does the Hancock Committee acknowledge that union power is indeed oppressive, defies the law and cows civil Government; yet as practical men the Committee believes that reforms aimed at curing those ills are pipe dreams — "vain hopes". The quintessence of the Hancock Committee's advice is "what can't be cured must be endured" and that because in today's practical industrial world right cannot triumph against might: we have to grin and bear it.

Seventy years earlier Mr. Justice Higgins had considered the identical issue. "The arbitration system", he said, "is devised to provide a substitute for strikes and stoppages, to secure the reign of justice as against violence, of right against might — to subdue Prussianism in industrial matters".

No one comparing the above two quotations could remain unaware that between the days of Higgins and the day of Hancock the Industrial Relations System has failed the purpose for which it was created. The Hancock Committee doggedly refuses to face this fact. Its prescriptions for polishing the empty shell of Higgin's system are irrelevant to industrial relations reform. The Government needs to bury the Report and start again. Reform of industrial relations has to remain on top of the national agenda for the 1980s.
FOCUS ON FIGURES

Jacob Abrahami

The True Deficit: $6.7 Billion

The $4.9 billion estimated Commonwealth budget deficit understates the deficit by almost $2.0 billion because of the way in which the Government finances the superannuation payments of its employees.

The Commonwealth Government's public service pension scheme is unfunded. No funds are set aside each year to meet future employers' liabilities, and instead each year's obligations are financed out of that year's consolidated revenue. This approach to financing pensions is reflected in one of the fastest growing items in the Commonwealth budget, 'net superannuation payments — benefits to, or in respect of, former Commonwealth employees and employees of some government authorities'. In the past ten years, these payments have increased by an average of 22 per cent a year — from $59 million in 1975/76 to $418 million in 1985/86. Total Commonwealth government outlays in the same period increased by 12 per cent a year.

If the Government had to fund its pension scheme using a sound commercial approach as private firms have to do, outlays would be substantially higher. It is difficult for an outsider to arrive at the exact full deficit, but an approximation can be arrived at along the following lines.

According to the Commonwealth Actuary, if the Commonwealth Superannuation Scheme (CSS) was fully funded it would require 21.5 cents for each dollar of salary to be set aside for investment to meet future liabilities.

The Commonwealth government (including the defence forces) and its authorities employ around 400,000 persons who are members of the CSS. On average they will each earn around $21,000 for the year. To fund the future retirement benefits of these people the Government would have to set aside in 1985-86, some $1,806 million (that is, 21.5 per cent of $21,000 x 400,000).

Because the Government is not setting aside this amount in the current budget, it will have to either raise taxes or increase the deficit at some future time when the liabilities arising from this year's employment become due. As such, the future impact of the CSS is similar whether it is funded or not. It must therefore be regarded as an addition to this year's "official" deficit.

Public companies have to disclose all major obligations they incur. There is no reason why the Government should not similarly give a full account, in the Budget Papers, of future commitments it has made on behalf of the taxpayers.

Education — A Growth Export Industry

Senator Walsh's attempt to reintroduce fees for tertiary studies for Australian students was unsuccessful. But what of fees for foreign students at Australian universities and colleges? In Western Australia, a study by Perth's Murdoch University and the Japanese Tokya Corporation is being conducted into the feasibility of establishing a private university, to cater primarily for fee-paying overseas students. Despite the opportunity such a university would provide for students from underdeveloped countries and the employment it would create for Australian academics, the Federation of Australian University Staff Associations has decided to draw on its $100,000 'fighting fund' in order to stop the proposal.

By international standards, Australia's foreign student population is not large: the 14,000 foreign students here make up about 4 per cent of the total tertiary student body.

By comparison, in 1979 foreign students accounted for 13 per cent of tertiary students in France, and 5 per cent in Germany. Of the total world population of overseas students of around 1,000,000 Australia's share is less than 1.4 per cent.
These figures suggest the existence of room for a very substantial increase in the number of overseas tertiary students in Australia. Australia could possibly attract, provided the institutional arrangements were made, some 20,000 fee-paying students.

The average annual cost of tertiary study in Australia in 1983 was $7,000 per student at a university and around $6,000 at a college. In current dollars, the fees required to cover the full costs of overseas tertiary students would be possibly around $8,000 per student. In addition to their tuition fees foreign students in Australia incur living expenses. On average these are around $5,000 per annum per head, according to figures published in the Goldring Report on Foreign Students in Australia.

Some 20,000 students paying an average of $8,000 in fees and incurring living expenses of around $5,000 would provide Australia with $260 million (in 1985/86 dollars) of foreign earnings in a year.

In addition to the direct benefit of selling Australia's education facilities to overseas students, Australia would benefit from future trade and tourist inflow that would undoubtedly stem from the presence of foreign students in this country.

"Education export" can, in a relatively short time, add hundreds of millions of dollars to Australia's foreign earnings and make a worthwhile contribution to Australia's balance of payments. It should be given every encouragement possible.

The $38 Billion Difference

The need to cut the growth in government expenditure has now become quite urgent, because its effects are cumulative; that is, what appears to be modest growth in any one year, if continued over a number of years compounds into very large figures. The larger the expenditure the larger the revenue requirement. Additional revenue, it should be remembered, can only come from higher taxation or larger borrowings.

The large difference in revenue requirement that can arise from relatively small differences in average real expenditure growth rates are illustrated in the graph.

Three annual growths of expenditure figures are used in the graph: 4.9 per cent (the average for the past three years), 2.1 per cent (the average for the seven years of the Fraser Government) and minus 1.0 per cent (the reduction required to provide the tax cuts proposed by Mr. Keating in option C for 1987/88, but without the broad-based consumption tax).

The differences between the revenues required to fund expenditures resulting from various growth rates can be enormous. For example, between a real annual growth of 4.9 per cent and minus 1 per cent there would be a difference of some $38 billion (in 1985/86 dollars) by the election year 1993/94.

It is for this reason that it is essential that political parties indicate their overall expenditure ceilings. The trilogy of promises on fiscal policy by Mr. Hawke is an important first step in indicating future revenue requirements. However, in terms of needed tax reductions the trilogy is much too modest a target.

Fraser by a Point?

While on the subject of fiscal restraint, my attention has been drawn to two articles critically assessing the expenditure restraint records of Prime Minister Thatcher and President Reagan. Clearly their achievements have not lived up to early...
FOCUS ON FIGURES

expectations. While international comparisons are exceedingly risky, it seems, on the basis of figures quoted in these articles, that Malcolm Fraser is amongst the best when it comes to restraint of government expenditure. However, if Mrs. Thatcher achieves her targeted expenditure level in 1985/86, her record will improve and she will emerge — for the moment at least — as the champion cost cutter.

The table in the Summer 1985 Review comparing government expenditure performances in Australia has been updated to include these international comparisons.

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*Adjusted for sale of public assets, otherwise 1.8 per cent.

Public Sector Inflation*

The public sector continues to lack price discipline. Since March 1982 the public sector’s contribution to the CPI has increased by 36.7 per cent, while the private sector’s contribution has increased by 26.5 per cent.

In the twelve months to June 1985, prices and charges under the control of governments continued to increase at a faster rate than private sector prices. The private sector’s contribution to the CPI increased by 6.3 per cent during the year while the public sector’s contribution increased by 7.9 per cent.

Public and Private Sector Contribution to the CPI
(Percentage increase, June Qtr 1984 to June Qtr 1985)

<table>
<thead>
<tr>
<th>All States</th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>SA</th>
<th>WA</th>
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<tr>
<td>Private Sector</td>
<td>6.3</td>
<td>6.1</td>
<td>7.5</td>
<td>5.4</td>
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<td>2.3</td>
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<td>11.7</td>
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<tr>
<td>TOTAL CPI</td>
<td>6.7</td>
<td>6.5</td>
<td>7.1</td>
<td>5.9</td>
<td>7.4</td>
<td>6.7</td>
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</tbody>
</table>

Not all governments made an equal contribution to the rise in the index. In NSW, Queensland and South Australia, increases in State and Local government charges were in the double digits; Victoria and Western Australia on the other hand managed to contain their State prices to less than around half the inflation rate of the private sector.

Export Failure

In 1973 Australia ranked 12th largest exporter in the world, but by 1983 Australia’s ranking dropped to 23rd. Not only are our exports failing to keep pace with the growth of world markets but an increasing proportion of our export earnings are now ‘lost’ to us through having to meet mounting capital repayments and interest obligations on our foreign borrowings.

Thus, the availability of export earnings to finance imports has been reduced, not only by the increase in import prices but also by the rapid growth of repayment and interest obligations resulting from Australia’s heavy borrowings in international markets — borrowings which now stand at $52 billion.

Just how costly has been our failure to compete can be illustrated by what we might call the ‘Foreign debt adjusted purchasing power of Australia’s exports’.

Figures for selected years in the past decade are presented below.

<table>
<thead>
<tr>
<th></th>
<th>Exports $M</th>
<th>Interest &amp; Principal repayments</th>
<th>Import price index (1981/82=100)</th>
<th>Net purchasing power of exports*</th>
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<tr>
<td>1974/75</td>
<td>8726</td>
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<tr>
<td>1984/85</td>
<td>30717</td>
<td>11537</td>
<td>126.0</td>
<td>15222</td>
</tr>
</tbody>
</table>

*In constant dollars after meeting principal repayments and interest obligations.

Not only has this failure to compete reduced our ability to improve living standards but it has also reduced our ability to compete.

The adjusted purchasing power of export figures starkly highlights the declining contribution of our exports to improving Australian living standards.

Australia’s exports in 1984-85 could buy $15,222 million worth of imported goods and services, a marginal 2.3 per cent more than in 1983-84, but 16 per cent less than seven years ago and almost 20 per cent less than 10 years ago.

* Readers who wish to read further on the IPA inflation index are referred to IPA Review Spring 1983 (page 120)
Is our school curriculum out of control?

Peter McGregor

Do Australian schools have a mandate to defy community attitudes and values? Should teaching organisations and journals advocate and incite the overthrow of our economic system or our political and social institutions?

Some books in use by today's teachers and students are not only littered with errors and half-baked ideas, but allow the views of radical minorities to be disseminated into our schools, usually aided and abetted by taxpayers' money.

Educational consultant, Peter McGregor, has made a special study of Australian text-books and reports on why the public should take a deeper interest in education and consider whether what is taught in our schools should be left solely to teachers.

Games are usually fun
In the classroom, they teach complex concepts that can only be learnt in simulation. But games can also hurt, and Starpower is one especially pernicious example. It is based on a series of economic falsehoods and is designed to create hostility among our 11 and 12 year-olds, to teach them to despise the society in which they live and to hate themselves as part of an iniquitous system. Its undisguised objectives, and their effects, were first lauded in a curriculum journal for social education teachers produced in 1982 by the Education Department of Victoria under the benign title of "Values and Action in the Classroom", which is still circulated to all post-primary schools in Australia through the generosity of funding by the Commonwealth Department of Education in Canberra.

Described by the teachers who introduced it as a game that "always generated distress and conflict", the stated aim of Starpower is to "destabilise the social structure of the class and the emotional well-being of the pupils."

In brief, the game is played by dividing the group of students into three classes — where one class only is given charge of the game to "exercise their control in such an unfeeling, cavalier and exploitive way that the game disintegrates". This is the author's way of demonstrating the functioning of Western society and its economic system. But there is worse to follow.

At lunchtime, when all the students are hungry, the lunches they have been asked to bring are given (only) to that exploitive class, who then have the unhindered opportunity to eat as much as they like, while the remaining two groups watch. Then it is the turn of the second class to eat — from what has been left. Finally the last class has the opportunity to pick over the scraps. In this way, the game demonstrates the way its author believes the world works. No mention is made at all of how food may be produced.

The reaction of the children is predictable. Not being in a position to understand what is being done to them, or being able to explain to their teachers that the economic system of the West doesn't simply consume but actually produces (and highly efficiently) enough food, knowledge and technology to feed itself and half the rest of the world as well, the children are angry. They tell their teachers:

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1 Study of Society, Vol. 13, No. 1. Study of Society is a regular publication distributed to all post-primary schools in Australia by State Education Departments, but paid for by the Commonwealth. I do not wish to imply that all the material in the series is as outrageous as the example cited here.
“It’s not our fault, it’s the fault of the system. We were not corrupt before the system corrupted us”; and “I learned what happens to the poor countries when the rich take everything. How much the poor suffer because the rich are so greedy .... I learned how the rich sometimes use their power wrongly and make up unsensible laws that the poor cannot prevent .. By playing Starpower I learned how the rich use their power to get money from the poor and make them poorer....”

There is no suggestion in the game, or the teacher’s follow-up, of the generosity of the West in times of international crisis, as in the case of Kampuchea or Ethiopia; or the voluntary giving of churches, individuals, organisations and companies, or acknowledgement of the achievements of an economic system that is able to create sufficient community wealth to pay for basic needs, extensive welfare services and a lot more besides.

Starpower is a sinister game, predicated upon the false assumption that developing countries are poor because we are rich.

Starpower is a sinister game, predicated upon the false assumption that developing countries are poor because we are rich — first argued by Lenin in 1917 — which toys with children’s emotions and the facts. It is not merely economic nonsense, plainly at odds with the evidence, but represents a serious breach of the responsibility that the paying community entrusts to its teachers and schools.

Creative Society

It would be wrong to conclude that our schools are full to overflowing with such dishonesty; but it would be extremely naive to believe that Starpower is an isolated example.

For example, other Commonwealth-funded resource materials which are distributed throughout Australia teach:

- our society is in danger of collapse
- only radical change can save us

- we must adopt an “alternative” lifestyle-called the “Creative Society”

They commend to all students the life-style of the Australian tribal Aborigine as a model of how we all might live, and list the Marxist, Marcuse, as essential reading.

For those with a sense of humour, the Victorian Institute of Secondary Education’s 1985 HSC Economics course booklet lists at least one interesting title: China’s Economic Revolution (published in 1977)! The author is sober and reputable although it does seem anomalous that there is no recent account of the real Chinese economic miracle since 1979. VISE, you will remember, is the same organisation that published, and still sells, books which advocate that teachers should take students into the streets to engage in direct action in order to overturn what they regard as “irrational structures” (the family? the Church? Parliament? the Press?).

Rich World, Poor World

For those without a sense of humour, Issues in General Studies, a current book designed for students in Years 11 and 12 General Studies course in New South Wales, is not for you. Purporting to offer students “a broad selection of material”, it presents (for example) the issue of Development and Underdevelopment through the eyes of one author only, Geoffrey Lean’s Rich World, Poor World whose perspective is identical with Starpower. (Incidentally, on the issue of nuclear power students are offered only a choice between Helen Caldicott and Cleo!). By any objective standards, this is propaganda — an insult to the integrity of intelligent teachers.

In a variety of subtle ways, and under the guise of “balance”, books like Issues proffer a one-sided view of society: “soft” questions for students to consider on the UN, the EEC and world government; “tough” questions on any issues reflecting the functioning of a market economy. Examples include essays on the topic, “We do not aid poor countries, we exploit them” — with no information available to assist students to challenge this view; or, “Multinationals are simply exploiters of the Third World. What is your view?” And usually, as in the ludicrous Cleo example, no serious

1 See, for example, Consumerism and its Alternatives, published by the Curriculum Development Centre, Canberra, 1982.
counter is permitted to offset the prevailing emphasis of the book, especially on matters pertaining to war. None of the arguments for deterrence are presented, and the controversy between scientists who do and do not foresee the possibility of a nuclear winter is not acknowledged. Also the views of the majority of Australians on issues such as war and peace are ignored.

Problems

Above all, this focus highlights Australian education's concern, indeed obsession, with problems rather than achievements. Schools, teachers (especially curriculum committees), publishers and the media concentrate attention on the failings of our society; sometimes so that they can suggest or imply their own solutions to problems — many of which are fatuous nonsense. None of them ever asks or encourages investigation of the seminal question: what is the mechanism that has transformed nations within the last century and fed the world? The “secret” that has seen much of the world climb out of the universal poverty of the last century to prosperity? Or, what device have both India and China, in recent times, adopted to overcome grinding poverty? These questions may never be asked in our classrooms.

Sadly, Deng Xiaoaping’s 1984 dictum that, “The road to egalitarianism is the road to equality in poverty” will have no impact in the schools.

Those of us who have been in and around education systems for a considerable length of time — 24 years in my case — have been persistently subjected to the “immutable” truth that society is so full of problems that it is in need of radical alteration. More particularly, that we — through children — have both the power and the calling to change it. In the words of a current song, “Everything must change”.

And change it will. Hopefully, however, not in the direction advocated by the social reformists within education and the text-book industry; but, more likely, as a result of shifting patterns of values within the community, as expressed through its representative organisations — including Parliament.

There may be no organised conspiracy to defraud students of their birthright — access to the facts and wisdom of their heritage — but this does not alter the seriousness of the charge being made at many levels of society that some of those who produce school resource material seek to radicalise unsuspecting students and their teachers and offer them only half-truths and propaganda, in the name of change.

By any objective standards, this is propaganda — an insult to the integrity of intelligent teachers.

What is still more worrying is the economic illiteracy that permeates the muddled thinking behind many of these materials, as well as in the minds of their recipients. There is no doubt that economic illiteracy is stifling the imagination and distorting the judgement of even our most conscientious teachers and their students.

Conclusion

- Australia needs a national Core Curriculum, one that reflects the full spectrum of community values, not just the values of a radical minority.
- Social education courses should only be approved for study when topics included in the curriculum have the imprimatur of relevant employer bodies, agencies and authorities outside education.
- Before it is adopted in schools the school curriculum should be debated in Parliament and in the public domain.
- If none of this is possible, education should be totally de-regulated so that those with radical views on schooling can test their success on the open market, and not at the tax-payers' expense.
Freedom Makes a World of Difference

Dr. Ken Baker

For twelve years, Freedom House, an independent organisation based in New York, which monitors the condition of human rights around the world, has published an annual survey and an atlas of freedom in the world. Freedom House’s 1985 Map of Freedom provides the focus of this article.

The great achievement of Western civilization has been to liberate the average person from the burdens of political oppression and poverty endured by the vast majority of people throughout history. The freedom, justice, democracy and relative wealth which characterise modern Western civilization are exceptional and should be cherished as such.

To some this will seem obvious, yet still there are Western commentators who draw negligible distinction between the role of the liberal democracies, particularly America, and the role of totalitarian nations, such as the Soviet Union, in world affairs. This seems especially apparent when it comes to discussing issues such as Third World poverty, United States’ policy in Central America and nuclear weapons. One leading Australian television journalist wrote at the end of 1984: “There are a lot of people in Soviet prisons. There are half a million people in American gaols. I don’t really like to make that comparison. It inevitably upsets both sides. The issue of nuclear war should transcend the carping”. Such remarks completely overlook the profound difference between a system which imprisons people for expressing their beliefs and one in which freedom of conscience is a fundamental right. This difference (as box 1 attempts to make clear) is not peripheral to the issue of nuclear war.

The rarity of freedom in the modern world is indicated by the World Freedom Map. Over 65 per cent of the world’s population lack the basic political and civil liberties which we in Australia take for granted.

The constituent elements of freedom include:-
- a competitive, democratic electoral process in which most adults have the right to vote and in which those elected govern.
- liberty to criticise, protest, assemble, worship, travel, change occupations, etc.
- the rule of law and the independence of institutions such as the judiciary and media from repressive State control.

Looking at the distribution of freedom in the world gives rise to a number of observations. It becomes apparent, for example, that publicity can be misleading. Some of the worst violators of political and civil rights are nations about which we hear least. One major reason for this is that the countries with the most oppressive practices are those from which the least information is allowed to escape. Albania and North Korea are examples.

A gap between rhetoric and reality is a universal characteristic of politics. Some governments, however, have extended the gap into a vast chasm. East Germany, officially titled the German Democratic Republic, is one of the least democratic, most oppressive nations in the world. Similarly, in the People’s Republic of China the vast mass of people are excluded from having any influence in the political process.

A further observation that emerges from a survey of freedom around the world is the apparent interrelationship between political and civil liberties on the one hand and economic freedom on the other. Those countries which allow scope for free enterprise in the economy tend to be the same ones which respect political and civil liberties. (All currently existing democracies have mixed free enterprise economies, although, regrettably, not all nations which have free
enterprise economies are politically democratic.) A corollary is that the countries with the most freedom tend also to have the highest general standard of living.

Freedom, it seems, cannot survive for long without supportive traditions and institutions. In Australia, the Constitution, federalism, a market economy, a tradition of individual responsibility and common law have all served to protect our political rights and civil liberties. Liberation from the "chains" of these customs would mean not the birth of freedom, but its death. Indeed, it is, in part, the weakening of such conventions and the shedding of functions by institutions such as the family that has allowed the transfer of ever greater degrees of power to the state. In recent times, for example, childcare has increasingly come to be seen as a responsibility of government rather than parents.

Contrary to Australia, the paucity of liberal institutions and conventions in, for example, Latin America has meant that, with few exceptions, governments there, of whatever nominal creed, whether of the Left or the Right, have been illiberal.

Unlike the domination by fear of the Nazi or Stalinist State, a main cause of the erosion of freedom in the modern West lies in the seductiveness of large, spongy, maternal governments on which people come to depend for the fulfillment of their desires and cure of their discontents. Such a form of government, as the great French political philosopher Alexis de Tocqueville warned 150 years ago, vitiates character and encourages a passive, childlike dependence:

"It does not tyrannise, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to be nothing better than a flock of timid and industrious animals, of which the government is the shepherd".

The Totalitarian Threat

Among non-democratic countries a distinction exists between authoritarian and totalitarian regimes. In the Map of Freedom, most authoritarian nations fall in the category "partly free" whereas all totalitarian regimes are listed as "not free". An authoritarian government is one that suppresses all political opposition, but allows other institutions — family, church, work place — to operate without too much political interference, as long as they do not impinge on issues of politics. Authoritarian regimes have existed throughout human history. Examples in the modern world include Indonesia, Chile, South Africa and South Korea.

Totalitarianism, by contrast, involves an attempt to subordinate every major aspect of human activity — economic, religious, familial — to the dictates of an all-powerful one-party State. The totalitarian state is an invention of the twentieth century, born in Stalinist Russia and Nazi Germany, accurately described by George Orwell in his novel 1984, and in today's world, exemplified by countries such as the Soviet Union, Czechoslovakia, the People's Republic of China, Vietnam, North Korea, Cuba and East Germany. In the post-1945 world the totalitarian state has been overwhelmingly a product of communism.

Maintaining a clear view of the distinction between authoritarianism — politically oppressive but with other institutions relatively independent — and totalitarianism — an attempt to obliterate freedom in all facets of private and public life — is important, both morally and strategically, in considerations of foreign policy. While it is right for free nations to criticise authoritarian regimes, it is sometimes necessary in the world of Realpolitik to support an authoritarian government if the alternative is a takeover by totalitarian forces or an advance in the interests of the key totalitarian state in the modern world, the Soviet Union. Australia's attitudes to authoritarian governments such as Indonesia and the Philippines fall within this category.

The Attack From Within

When discussing the flaws in our own society, it is important not to lose a sense of perspective. We should refrain from judging our society against grand utopian ideals.

No society is perfect because no man is perfect. All societies could be improved. Some social systems, however, are palpably more imperfect than others. Moreover, the worst societies are often those which have arisen as the mutant of a utopian scheme, an attempt to impose from above a vision of a rationally organised, just society without heed to the limits of human nature and historical reality.

It is an intriguing paradox of the last two decades that the more permissive and affluent
The Map of Freedom

January 1985

Reprinted from Freedom at Issue, Jan-Feb 1985 with permission of Freedom House
The Map of Freedom

The boundaries represented are de facto boundaries. Freedom House does not necessarily recognize their legitimacy.

Numbers refer to map, pages 28-29.

**Free Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Anigua &amp; Barbuda</td>
<td>139</td>
</tr>
<tr>
<td>9 Argentina</td>
<td>145</td>
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<tr>
<td>10 Australia</td>
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**Not Free Countries**

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**Related Territories**

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**Related Territories**

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Western societies have become, the more they have been attacked as repressive and impoverished, and attacked what is more, by some of the most educated and privileged sections of those societies.

Paul Hollander, in his book Political Pilgrims, has documented the insidious romance of leading Western intellectuals with communist regimes such as the Soviet Union, China and Cuba. Needless to say, the privileges of free inquiry, open debate and criticism afforded to these intellectuals in the liberal-democratic West would be utterly prohibited in the totalitarian regimes admired by them from afar.

Moreover, as Irving Kristol has noted, so stultifying is totalitarian socialism to intellectual inquiry that in the Soviet Union's 70 years of existence not a single interesting work on its founding doctrine, Marxism — not even an authoritative biography of Karl Marx — has issued forth from that country.

To treat the totalitarian nations as somehow morally equivalent to the free world — is a perverse blindness not only to the truth, but to the value of freedom.

A striking example of this "moral equivalence" view occurs in the publication of the Human Rights Commission, Teaching for Human Rights, part of an educational kit distributed to more than 150 schools around Australia. In the context of discussing the genocidal policies enacted in Nazi Germany and during the construction of the Soviet State, a parallel is drawn with the capitalist world:

"There has been mass assassination, too, by more covert and indirect means. The construction of a capitalist world economy, predicated upon dishonesty and greed, has slaughtered uncounted millions the world over through the exploitation and the mis-development of global resources. The United States and the other erstwhile "free market" democracies have much to answer for in this regard".

This extraordinary statement, it should be stressed, is lifted from a text which purports to be educating children about human rights. Rarely do those fortunate enough to have escaped from Nazi Germany or the Soviet Union or any one of the other anti-democratic countries in the world to one of the capitalist democracies of the West have any problem at all drawing a clear moral distinction between the record of human rights in their former compared with their present countries of residence. The Human Rights Commission could learn much from the accounts of these refugees and emigres.

1: Freedom: a source of peace

The existence of freedom in a nation appears also to be a significant preventative of war. Of the more than fifty international wars which have taken place between 1816 and the present (the period for which there are systematic data) not one has involved an established liberal democracy on both sides.

The American social scientist, R.J. Rummel, has collected data which demonstrate also that collective violence within nations decreases the more freedom there is.

"As far as our science of peace has come", he concludes, "the path to minimizing global violence and creating a world free from war appears to be an extension of civil liberties, political rights, and economic freedom".


Rummel's conclusion that the less freedom a nation possesses the more warlike it is likely to be is, in part, supported by the work of another American political scientist, James L. Payne. In his study, Payne employs a country's "force ratio" — the number of full-time regular military personnel per 1,000 population — as a measure of that country's commitment to military power. Payne compares Marxist with non-Marxist nations and finds that Marxist regimes have armed forces over twice as large as those of non-Marxist countries.

"The 32 Marxist countries for which data are available have an average force ratio of 13.3; for the 109 non-Marxist regimes, the average is 6.1. This general pattern is repeated in more specific comparisons. Marxist North Korea has a force ratio of 38, while non-Marxist South Korea is 14.7; Marxist South Yemen's is 12.5, non-Marxist North Yemen's is 3.9; Marxist East Germany is at 14, non-Marxist West Germany has only 7.8. The eight Marxist European countries have an average force ratio of 13.8; the 17 non-Marxist European countries have an average of 7.6. The pattern holds for the superpowers; the Soviet Union has a force ratio of 16.3 the U.S., 9.1".

(The Asian Wall Street Journal, April 9, 1985).

It follows that peace activists should direct the main part of their attention towards the real forces of militarism in the world, Marxist regimes.
2: The blame America brigade

The London Spectator of August 24 carried an article by the Russian writer, Vladimir Voinovich, describing the barrage of anti-American propaganda to which the Soviet people are subjected:

“Every day Soviet newspapers, radio and television curse the USA, using colours blacker than black to describe American unemployment, racial discrimination, inflation and pauperisation”.

This is hardly surprising: the very presence of the free world, of which America is the most powerful representative, is a primary cause of discontent in the Soviet Union. For this reason, discrediting and ultimately eliminating liberal democracies continues to be a goal of the Soviet Union.

What is interesting is the apparent lack of credibility which such propaganda now has amongst the Soviet citizenry. Indeed, argues Voinovich:

“By its relentless mendacity and unscrupulousness (Soviet propaganda) has achieved the most staggering effect. Soviet people react with profound interest to everything that official propaganda abhors, and with equally profound aversion to everything that it praises”.

So that while revolutionary slogans now bore the Russian people, all things Western attract them. The fact that things really are greener on the other side adds considerable impetus to this.

The real irony may be that the only significant group which continues to believe passionately in anti-American propaganda and disparage Western institutions and values is the West’s own new class intelligentsia consisting of, among others, church social justice commissioners, advocates of the New International Economic Order and writers of peace studies pamphlets. Many of this group would claim to condemn the Soviet Union and America equally; but such purported “balance” is quite simply mendacious. How
Regionalism

One of the major failings of Australia’s external policies over the last decade has been to try to prop up the new Australian national identity in terms of a regional isolationism which is damaging to the nation’s interests and cannot work. It is wrong in both concept and practice to see “the region” as an alternative to wider global problems, as a bulwark behind which we can shelter. To concentrate on “the region” merely because that is where Ministers and officials can appear to make most difference contradicts the whole history of Australian external relations since Federation, which has mainly had to do with global relations. It contradicts the country’s major political and economic ties which are still with the United States, Japan and Europe. And it flies in the face of the evident fact that almost every country in the Southeast Asian region has ties and relationship outside that area which are more important to it than are links with Australia or even with most other Southeast Asian nations.

The conventional wisdom about “our region” creates other difficulties. It lands Australia in claims which, in other parts of the world, would be called claims to a sphere of influence. And what else are Australians doing when they demand a say in what Indonesia does in East Timor or West Irian, or what the French do in Polynesia?

Defence Self-Reliance

The same attitude encourages ideas about defence self-reliance. Australian Governments have been right to think that self-reliance in relation to minor threats to our safety, or even to regional stability, would be in line with American views that allies should look after themselves as far as possible; that making ourselves able to look after our immediate surroundings contributes not just to our own safety but to the purposes of the alliance of which we are a part; that being able to do these things would strengthen our claims to American support if a serious threat ever arose.

But it is a mistake to ignore, as Government has done, the fact that notions of self-reliance necessarily imply a continuation and strengthening of the alliance with the United States, because:

• Australia claims an exclusive economic zone around our shores which roughly doubles the proportion of the earth’s surface which we claim to control. We have very large claims in Antarctica. We have vital interests in the Indian Ocean and the protection of Australia’s West Coast. To sustain such large claims we need effective allied support.

• The very idea of concentrating the efforts of the Australian defence force on the defence of Australia and our territorial waters necessarily implied that someone else will look after the sea and air lanes on which we rely.

• If Australia wants to maintain regional superiority in military technology — which all Australian Governments do — the only source of much of this technology is, directly or indirectly, the United States.

• Any foreseeable Australian defence and external affairs effort relies critically on intelligence and information from a network in which the U.S. is the largest participant and supplier.

• These pressures are increased by the reluctance of Australians to spend more than some 3 per cent of GDP on defence — or about half the scale of spending of the U.S. or Britain.

The Peace Movement

This is one reason why the Peace Movement, in its present form, is so damaging. Everyone wants peace. The question is how to keep it. One difficulty with the present Australian Peace
DEFENDING AUSTRALIA

Movement is its strong anti-American cast. That reinforces the general distrust of the United States being encouraged from the political Left, as well as some small sections of the far Right. This is dangerous because in some ways our leverage with the U.S. is diminishing as time goes by; and at the same time there is growing impatience in Congress with allies who complain but contribute little.

The other and much more important reason why the Peace Movement is damaging is because the aims it proclaims would actually make war more likely. That is not, of course, what its supporters say or want. There are many good, honest people who think that supporting general peace efforts is bound to be a good thing.

But the real question is not about their motives but about the likely effects of their actions and claims. They say they want the joint Australian-American facilities removed, but say nothing about the damage to verification that this would cause, the damage to Western surveillance and intelligence, and consequently the increased danger of war. They say nothing, either, about the damage to Australian credibility if, having hosted the facilities for twenty years, we suddenly and for no apparent reason changed our minds.

They call for a reduction of weapons totals — a very sensible aim, as far as it goes — but do not say how, especially when, at the same time, they want to weaken the inspection mechanisms which might make some arms reductions feasible.

They oppose the moves towards strategic defence — “Star Wars” — which are technically inevitable and strategically necessary because of the growing instability of the existing balance. This is increasingly unstable because of growing numbers of mobile weapons, smaller and more accurate warheads and, not least, the vulnerability of command and control systems, especially on the Western side. It might be possible for the Soviets to knock out Western control systems in a sudden blow by perhaps as few as 50-100 warheads. That might leave the West with no capacity for any co-ordinated reply, or perhaps any reply other than the mass murder of cities to which the Russians would inevitably respond by murdering Western cities.

Clearly at times of tension the temptation to knock out control systems could become dangerously great. The only way out of the problem as the American administration has rightly said, is likely to be a move towards some mix of defence and offence on both sides.

Most obviously foolish of all is the Peace Movement’s wish to “denuclearise” Australia and the surrounding zone. As if declaring ourselves anti-nuclear would avoid the consequences of a nuclear war, even one in which we are not directly attacked. If the “nuclear winter” thesis turns out to be true, the idea that safety lies in isolation becomes even more dangerously silly.

Star Wars Technology

If some move towards “Star Wars” is technically inevitable — and given the very great range of technologies involved, and the massive work going on, it almost certainly is — it becomes not just strategically but economically foolish of Australia to refuse the American offer to us to participate in the research and development. Star Wars will include work at the cutting edges of several highly important technologies, work which would be financed by the U.S. and on technologies which we shall not otherwise command.

But the military aspects are just the tip of the iceberg. Star Wars involves only part of the space-related technologies which are certain to be the focus of a major expansion of economic activities by the advanced countries by the 1990s. This already involves global satellite-based communications into which corporations have poured hundreds of millions of dollars. It is likely, in spite of some doubts, to include some kinds of space-based manufacturing as well as sensing and surveying of all kinds. It already involves a NASA project for a large, modular space station in which Japan, Europe and the Canadians are involved.

If we opt out of all this we shall find ourselves on the wrong side of a widening technology gap between advanced nations and others, a gap which will become increasingly hard to bridge. Given the notoriously poor record of Australian corporations in investing in research and development or actively encouraging medium to long-term technical developments in this country, the dangers are very real.
The UN: Corruption Of An Ideal

Peter Samuel

Established forty years ago with the noble if naive goal of enhancing an awareness of common humanity between countries, the United Nations is now an organisation corrupt and heavy with bureaucracy, and a mouthpiece for anti-Western ideologues.

Charles Lichenstein has long been admired and loved by a small circle of New York and Washington intellectuals, being well-known to the Commentary magazine, "Freedom House" and Henry Jackson-Democrat crowd. A forceful but always good-humoured speaker and writer, a social democrat and an anti-communist, Lichenstein was, during the 1970s, out of general public attention since he worked at the CIA. However in the 1980s, retired from the enforced obscurity of the establishment in the woods of Langley, Virginia, Lichenstein was chosen by Jeane Kirkpatrick to be her deputy as Alternate US Ambassador to the United Nations in New York. Overnight he was transformed into an American folk hero, when in answer to complaints about the way New Yorkers regarded the UN, he declared on the floor of the General Assembly that if the UN decided to pack up and leave the Big Apple, "we will be down at the dockside, waving you a fond farewell as you sail off into the sunset".

Ambassador Lichenstein’s expression of “Good Riddance to the UN” was acclaimed throughout America as an eloquent and apt expression of the nation’s exasperation with the international organisation. A large proportion of Americans now regard the UN as decadent, hypocritical, exploitative of America and a running sore on the international scene. But balancing that view is the feeling that for all its weaknesses, the world has to have a forum for international discussion and must have supranational organisations, so, despite its grave deficiencies, the United States has no alternative but to work within the UN structure and try to reform it. But American politicians in the Congress are extremely reluctant to vote the UN the extra funds it wants and even a critical conservative Administration fails to get the modest increases it asks for from the legislators. And the US has left one specialised UN agency, UNESCO, which is now being abandoned by other Western nations. America has said it will leave other UN agencies-including the General Assembly itself — if threats to exclude Israel are carried out.

Speaking at the founding place of the UN, San Francisco, on its fortieth anniversary (June 1985), the US Secretary of State, George Shultz, referred to the UN as a “troubled organisation”. Perhaps the founders of the UN “were somewhat naive” said Shultz. Its vicious campaign to de-legitimise Israel has been “a persistent black mark” on the UN and its resolution of 1975 suggesting Zionism was “racism” was “singularly vicious”.

Mr. Shultz said the UN was founded on the assumption of “broad agreement” with the ideals and charter of the UN by a clear majority of members, and support for the concept of “collective security” as embodied in the UN’s repulsion of North Korean and Chinese aggression into South Korea around 1950. However: “The international consensus which the founders hoped for has broken down”.

Now, the majority of the UN member states are authoritarian — opposed to democratic rights, individual freedoms and the institutions of an independent judiciary, a free press, free trade unions, and opposition political parties. Naturally, as the UN gets a majority that does not respect the original charter, so it is bound to depart increasingly from its ideals. It would be anomalous if it were otherwise.
The Soviet Union, driven by the belief that its Communist Party has a world monopoly of wisdom and righteousness, and that it must have a world monopoly of power, has naturally been a constant antagonist of the UN in its original ideal as a liberal, pluralistic, pragmatic and benevolent international institution. The Soviets have, quite predictably, seen the UN as just another venue in which to wage political warfare against the liberal democracies.

Disproportionate Dues

The structure of the UN was always misconceived, with dues collected according to obscurantist formulae designed to bilk the West, while decision-making power rests in a one-country, one-vote majority and a non-accountable bureaucracy, susceptible to radical penetration and exploitation.

The unfairness of the UN financial dues is reflected in the fact that Australia is levied (annually)
- more than all communist countries except the USSR, which gets away with much non-payment anyway;
- twice China's contribution;
- twice the total paid by 46 African countries, including oil-rich countries like Nigeria;
- as much as twenty Asian countries;
- three times the contribution of Iran;
- twice the payment from Saudi Arabia;
- four times India's contribution;
- half what Israel pays.

The twenty-five industrial democracies pay 74 per cent of the UN's bills... but have less than a sixth of the controlling votes.

The twenty-five industrial democracies pay 74 per cent of the UN's bills of about US$3 billion annually and have less than a sixth of the controlling votes. So the structure and financing of the UN were almost tailor-made for irresponsibility and non-accountability. They give a virtual non-paying majority automatic voting dominance. 46 African states pay 0.75 per cent of UN costs, 18 Arab states contribute 2.01 per cent, and 20 Asian states 1.62 per cent. So with contributions of a mere 4.38 per cent of the UN budget, 84 African, Arab and Asian states can form a majority. (In fact of course, the tyranny of the non-paying majority is more complicated, but this is illustrative of the structural problem.)

Not surprisingly, the bureaucracies of the UN have become corrupt, ill-managed, irresponsible cliques with all the evils of unresponsive "big government" and welfarism of the West, the tribalism of Africa and police-state authoritarianism. UN bureaucrats are the world's highest paid in salaries and perks, and probably among the world's least productive — although there is great variability between UN agencies. Some still manage to draw on uncontaminated reservoirs of idealism and selflessness (the UN High Commissioner for Refugees and UNICEF), one or two are moderately efficient (like the International Civil Aviation Organisation and, by some assessments, the World Bank) but others are cesspools of corruption, careerism and misdirected effort (obviously UNESCO). The UNRWA (Relief and Works Agency) which came under the control of the PLO many years ago has been a major supporter of Palestinian terrorism and, as such, has been responsible for the death and disablement of thousands of Lebanese, Israelis, Jordanians, Egyptians, Europeans and Americans and fanned the hatreds of the Middle East in quite pernicious fashion.

Soviet Influence

The UN Secretariat in New York is under increasingly pervasive Soviet KGB influence. The Soviets have more of the professional jobs at the UN Secretariat than any other nationality, and they now have an apparent stranglehold over the personnel, servicing, library, conference and public relations branches. The UN Charter intended to provide for an impartial UN civil service, independent of individual governments. (Articles 100 and 101 supposedly forbid UN staff from seeking or receiving instructions from their national governments.) American and other Western citizens who manage to get jobs at the UN Secretariat generally meet this ideal. Their governments do not attempt to control them. But the Soviet employees are all Soviet government employees on fixed-term secondment to the UN. They are all forced to live in a Soviet-controlled compound in the Riverside area of the Bronx. According to Arkady Shevchenko, the Soviet UN Under-Secretary until his 1978 defection to the US, the Soviet UN civil servants are under constant
Soviet Government discipline. They are all forced to turn in their SUS UN pay cheques each week and receive only a fraction in return — so the UN payroll heavily subsidises the activities of the Soviet missions in the US, at least a third of whose staff are spies!

Apart from the KGB, the International Department of the Soviet Communist Party also wields considerable influence over the UN via its penetration of the apparatus that runs the UN arrangements with Non-Government Organisations (NGOs), especially those affiliated with the UN Economic and Social Council (ECOSOC). Hence the flock of Soviet front organisations that have gained special status and accreditation at the UN — the World Peace Council, the World Federation of Trade Unions, the Afro-Asian People’s Solidarity Organisation, Christian Peace Conference, International Association of Democratic Lawyers, World Federation of Democratic Youth, Women’s International League for Peace and Freedom, International Association of Journalists — all Moscow puppet organisations that faithfully toe the CPSU party line.

There is another way that the UN has corrupted its original charter. It was founded as an association of de facto governments of states aimed at universal membership by the world’s governments. Since the 1970s there has been an almost non-stop effort to unseat and expel Israel by the Soviet and Arab blocs there — which has so far been thwarted only by the US threatening to leave the UN if Israel is forced out. At the same time terrorist guerilla organisations — the PLO and SWAPO — without either political legitimacy or de facto state control, have been increasingly accorded membership rights and status.

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Up to half of the time of the UN Assembly is taken up with the issues of apartheid in South Africa, repression in Chile and supposed atrocities by the Government of Israel. Much of the rest of the time of the General Assembly is consumed in dealing with radical rantings against the alleged ill-doings and malpractices of Western democratic countries. So predictable are the diatribes of the representatives of the undemocratic majority that they are of little interest to the free press and are rarely reported, but they form a rather important base for Soviet and Third World propaganda.

It is only necessary to go through each paragraph of the UN Charter in order to see that the UN is now in hostile hands. Article 1, Paragraph 1 calls for the UN “to take effective collective measures for the prevention and removal of threats to the peace”, something it has not done since the UN Force was sent to Korea shortly after its formation.

Paragraph 2 requires the UN “to develop friendly relations among nations based on respect...” whereas the UN has become a kangaroo court of vilification and hatred.

Paragraph 3 calls for the UN to “achieve international cooperation in solving international problems of economic, social, cultural or humanitarian character”, whereas the UN and its agencies are captive to the Soviet-Third World marxist agenda of vilifying free markets, personal incentives, private property, voluntary commercial arrangements and extolling the bankrupt practices of cartels, privileged government monopolists, central planners, collectivisers and expropriatory bureaucracies.

Says one of Washington’s UN authorities, Dr. Juliana Pilon: “The UN has departed considerably from its original mandate. An institution with a costly, inefficient bureaucracy, politicised by third world and totalitarian nations, it is no longer the parliament of peoples meant to bring reason and balance to the relations between nations” (Report on the US and the UN — a Balance Sheet, Heritage Foundation, UN Assessment Project, June 1984 on which this article draws heavily).

The UN is a major force for economic impoverishment through its constant pressure for the so-called “New International Economic Order” (NIEO), for which many of its agencies and the Secretariat’s Department of Public Information propagandise. The NIEO is best summarised as international socialism — forced transfers of income and wealth, great power for international bureaucracies, state cartels to regulate international production and trade, unlimited state rights to expropriate property, and heavy restrictions on any remaining enterprise or other private economic activity. Given that wealth seems
best created, incomes increased and science
harnessed in open free market economic systems,
the UN’s heavy commitment to international
socialism is a serious obstacle to world economic
development and the alleviation of poverty.

Economist Doug Bandow says: “The UN’s
war against the liberal economic order and the
western companies that make the system work,
permeates the organisation... (it) stifles economic
development and growth in the Third World. In
this way, the UN threatens to make the Third
World perpetually dependent on US aid and
perpetually hostile to US interests”.

**Hypocrisy About Human Rights.**

Under its Declaration of Human Rights the
UN is supposed to be concerned about human
rights, but dominated as it is by the great human
rights’ violators of the world, “human rights” at
the UN is just another opportunity for double
standards, hypocrisy and selective vilification. The
worst human rights’ violations in the world go
virtually unconsidered — the continuing gulag
archipelago in Russia, the tribal slaughters of east
and west Africa (300,000 are reported to have died
under Idi Amin in Uganda), the genocide of the
New Order in Cambodia, ‘re-education camps’ in
Vietnam, Ethiopia’s selective feeding and forced
marches of the starving, Iran’s atrocities,
Nicaragua’s repression of the Indian Miskitoes,
Syria’s destruction of 10,000 people at Hama in
1983, and six years of Soviet depredations in
Afghanistan. Instead the UN agenda on human
rights is almost entirely limited to those three
special ‘UN villains’ — Israel, South Africa and
Chile.

Substantive international cooperation and
diplomacy is achieved these days almost entirely
outside the scope of the United Nations. It is done
through bi-lateral relations — country to country
discussions and negotiation. Or else it is achieved
through non-UN or sub-UN multi-national
arrangements. Some are regional arrangements —
the European Community for example. There are
historically based groupings like the
Commonwealth. The OECD does much work on
economic cooperation between countries. Security
cooperation in support of Article 1 of the UN
Charter occurs through bilateral and multilateral
defence arrangements like NATO and ANZUS
that have nothing to do with UN machinery.

Some Western apologists for the UN say that
it acts as a “safety valve”, allowing the
representatives of the aggrieved and aggressive of
the world to “let off steam”. A more persuasive
argument is that it gives them undeserved
international legitimacy and provides them an
institutionalised megaphone for their incitement
to hatred and division. The General Assembly has
become an arena for political warfare, where
respect for facts and rational argument is rare.
Rather than being a safety valve, it may better be
characterised as a dangerous pressure-cooker.

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**Politics and Sociology of Funding Australian Schools:**

1962 — 1984

Direct from publisher, $27, post free.

“This is an extremely valuable book, which documents the course of the State Aid debate from
the Karmel Report in 1973 to Senator Ryan’s ‘hit list’, and looks ahead to funding options for schools
in the 1990s.”

(Peter Westmore, *News Weekly*)
Australia and the U.N.

The question which arises from Peter Samuel’s chilling article is: What is a nice girl like Australia doing in a place like this?

The analogy is, in fact, an apt one. The United Nations has become nothing less than an international house of ill fame, inhabited by the most extraordinary collection of foreign policy pimps, prostitutes, transvestites and other perverts, all under the general management of that most powerful of madams, the Soviet Union.

As Mr. Churchill found in the 1930’s, the Foreign Offices of the world are filled with people who have become ashamed to stand up for their countries. At the UN today such people slide readily into the role of foreign policy procureurs. Busily cabling their capitals, these officials seek to procure their agreement for them to “go along” with whatever be the latest outrageous General Assembly resolution lest they should find themselves ostracized at the cocktail parties in the days that follow.

How did it come about, for example, that Australia should have aligned itself with that foreign policy transvestite, France, brazenly initiating a Security Council resolution calling for sanctions against South Africa on the very day on which it was moving French troops into Guadeloupe to maintain law and order?

To take an earlier example, how was it that the Australian Treasury was forced to “fight and fight and fight again” (in the famous words of the late Hugh Gaitskell) to dissuade the Government of Mr. Malcolm Fraser from embracing with open arms the so-called New International Economic Order — a UN creed which Mr. Samuel quite rightly summarises as international socialism? It is interesting to note, incidentally, that the recently appointed head of our Department of Foreign Affairs, Professor Stuart Harris, was himself — and may still be — a firm supporter of one of the more silly ideas making up the NIEO mish-mash (the so-called Common Fund).

It is thus not merely the waste of taxpayers’ money through our UN membership costs, referred to by Mr. Samuel, which should concern us. There are also heavy costs in Canberra itself. The bureaucratic energies which are consumed there — in the Department of Foreign Affairs, or in the more responsible Departments seeking to head off the latest bout of nonsense emanating from New York or Geneva — are enormous, and very costly.

It is no accident that, with all their faults, the two post-war international agencies which can truly point to a substantial record of achievement — the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank) — are agencies separate from (though having relationship agreements with) the United Nations. These two agencies guard their independence jealously, though even so not wholly successfully. They are enabled to do so by, first, the non-membership of the Soviet Union and most of the Soviet bloc countries (although there are now some exceptions); and secondly, and even more importantly, by the fact that they operate on the basis of “weighted” votes. Unlike the UN, the sheer nonsense of Mauritius (say) — or for that matter, Australia — having the same vote as the United States does not therefore arise.

Why do we continue to incur all these costs of belonging to the UN and its extraordinary miscellany of specialised Agencies? It is not as though we have anything positive to show for doing so.

Worse even than these costs, however, is the poisonous effect which these bodies have had — and continue to have — upon the whole intellectual climate of the world. Increasingly, too, we find their meretricious decrees being foisted upon us domestically — for example, via so-called “conventions” of that most fraudulent of UN bodies, the International Labour Organisation, which for years has been nothing more than our own domestic Industrial Relations Club writ large upon the international stage.

Serious consideration should be given to Australia’s withdrawing either from the United Nations itself or, if that is thought to be too strong a step for delicate political stomachs, from the great majority of its Agencies (e.g. the I.L.O, U.N.E.S.C.O., U.N.I.D.O., U.N.T.O, etc, etc, etc) It would be interesting to know whether the Federal Opposition Parties have even begun to put such possibilities to study.

John Stone
The Cost Of Price Surveillance

John Hyde

The Prices Justification Tribunal was terminated in 1981. In 1983 it was succeeded by the Prices Surveillance Authority (PSA). The Authority has no power to enforce its edicts, but its capacity to distort prices can damage the economy all the same.

Price control is privilege in one of its many guises. The usual rationalisation for price controls is to protect some special interest from the effects of price fluctuations. The objective of price controls is greater certainty for the protected interest. But price controls are a very bad way of trying to give certainty to anyone — even for those they are ostensibly designed to protect.

The certainty with price controls is that they will cause disruption in the activity whose price is controlled, generally leading to shortages or surpluses, reductions in quality and ultimately a host of bureaucratic controls including rationing. Fluctuating prices are necessary signals which equate supply with demand.

The would-be controllers make strange bedfellows. They include several of the left wing of the Labor Party, most of the Country Party and some 'old guard' Liberals. The decontrollers include the 'dry' Liberals and some of the right wing of the ALP; however none of the ALP admit to including decontrol of the all-important labour market on their agenda.

Since the unlamented end of the Prices Justification Tribunal, Australia has not had a system of general price control. But one or other of our governments does set maximum legal prices for some commodities including petrol, minimum legal wages, and fix the price of many goods and services, including wheat, bread, sugar, air fares, taxi fares, and government monopoly services. Remembering the record of the Prices Justification Tribunal, perhaps aware of Mr. Muldoon's then growing troubles in New Zealand and certainly aware of British Labour's unhappy experience with price control, Mr. Hawke conceeded only a Prices Surveillance Authority to forces he felt he could not ignore and placed it firmly in the hands of a Minister who, in the company of his Department, basically does not believe in it.

Surveillance, even if the Authority's prices were to be ignored, inflicts the dead-weight costs of form-filling and negotiation upon the firms which must submit their pricing decisions to scrutiny. For the most part these costs will be passed on to consumers.

But while the Surveillance Authority has no legal power to enforce its edicts it does have more than a little persuasive influence. A firm ignoring its recommended prices must wonder when the government or the trade unions might make its life difficult.

Prices give important information. They express the value producers and consumers place on a product at a particular time. Price controls are a kind of censorship on this information — a particularly harmful censorship that makes prices lie to us.

Relative prices are signals which tell producers what is wanted and how to produce it with least resources. Prices tell consumers the relative amounts of resources needed to satisfy their alternative wants, thus enabling each consumer to make the best trade-off to satisfy his own preference. When governments interfere with price relativities the signals become false; shortages or surpluses develop; then rationing is achieved by either buyers' or sellers' queues, and by the use of legal or illegal muscle.

Prices change because facts change. Prices must fluctuate because supplies change and people's wants change. Yesterday's prices are
seldom appropriate today. Take lettuces which are sold in a relatively free market. Heat waves cause demands for salads and sometimes damage lettuce crops, and lettuce prices vary with the weather. The only alternative to fluctuating lettuce prices is fluctuation between lettuce rationing and heaps of rotting lettuces.

**Controls cause Harm**

During the 1960s West Australian lamb prices exhibited lack of uniformity which offended the more lowly paid spring lamb producers (who are the majority). In the 1970s the Lamb Marketing Board regulated prices so as to reduce the premium paid to autumn lamb producers (who are the specialists). The Board seemed surprised when several producers stopped carrying lamb through the summer.

The authorities of the United States, Canada, Australia and several other countries held down petroleum prices in the wake of the first “oil shock” in 1973-74 because they believed that this product was particularly inflationary. (Or was it because of the political clout of the motor car lobbies?) In consequence, petroleum exploration was less than it might have been; cars were bigger and less efficient than they might have been; and the United States, a nation with great oil reserves, became the major oil importer. The world treated itself to an energy crisis. Then political strengths changed, the OPEC oil producers set an artificially high price for petroleum, oil wells multiplied and cars shrank. Now, only seven years later the world treats itself to an energy glut. How much better would it have been if the Saudi Arabian, United States and other governments had left the price of oil alone?

Wages are the price of hiring someone. Australian laws have long made it illegal to employ people below a certain wage. These laws make it impossible for employers to find out if people would be prepared to work for less, which, if they would, would mean that more of those who want to be employed, could be. Minimum wage laws prevent unemployed people from offering themselves for work at wages they might think are quite acceptable. The legal minimum confuses everyone and, worse, denies some the basic right to accept gainful employment.

The Commonwealth does not have the constitutional power to implement blanket price control but it does have power to regulate corporations and its own authorities. This is sufficient legal authority to thoroughly distort relative prices. Fortunately it is not put to full use.

The PSA has issued draft guidelines for its own conduct. In justification of these it said that competition in parts of the Australian economy lacks vigour — which is true. It points to high capital costs required to enter markets, restrictions placed on production technology by patents or licenses and protection from international competition through tariffs and statutory regulation. Where competition is reduced or absent the draft says prices are prone to exceed competitive levels and may reflect costs inflated by inefficiency or breaches of the prices and income accord. The PSA clearly sees its duty as one of overcoming market failure, sees barriers to market entry as prime causes of market failure, and sees the government as a prime source of barriers to the entry of various markets. However, the likelihood that the PSA will prove, in fact, to be anti-competitive remains. As time passes vested interests who want government intervention to reduce their buying prices (but not their selling prices) will encourage the PSA to forget that it once saw government as a prime source of market failures and induce it to recommend more regulation. The weight of advice it receives will be from vested interests and bureaucrats with an interest in bureaucratic activity. It is hard to believe that this authority will resist their blandishments more successfully than have other similar bodies.

In any case, part of the argument it uses is wrong. Restrictions on the use of production technology, particularly new production technology, do cause prices to be higher than they would be in their absence, but unlike tariffs and regulations these high prices perform a necessary economic function. These are the 'entrepreneurial profits' which encourage new technology. In Australia's case, far from being too high they are too low. Further reducing them would be very costly in the long run.

**Monitoring public monopolies**

The PSA is not all bad, however. Unlike the Prices Justification Tribunal (PJT) the PSA has the authority to investigate Commonwealth statutory monopolies. For several months it refused Australia Post increased postal rates. Although facing some competition at the margin from courier services, Australia Post has its core
activities protected from competition by law. It is as near to a complete monopoly as is found in Australia and most fully satisfies the circumstances which the PSA's draft guidelines said called for price surveillance. The PSA would expect this organisation to incur unnecessary costs. These costs could take the form of overmanning, outdated work practices and industrial strife. Is there, then, a case, in the absence of anything remotely approaching effective competition, for a government agency to police monopolies, restricting price increases? I think there is.

The best way to avoid cost-padding would be to open Australia Post to competition, but failing competition a procedure which squeezes postal charges probably reduces feather-bedding. The PSA's difficulty is that it is in no position to duplicate Australia Post management by making judgments as to which costs are necessarily incurred and which not. It can only look at incurred costs and calculate prices to cover those; or starting from the assumption that all monopolies incur unnecessary costs (an assumption justified by theory), squeeze all the monopolist's charges until the monopoly begs to have the PSA exchanged for repeal of the entry barriers. When that happens the PSA will have an indication that it has found the optimum average price but individual prices might be very different from those which a free market would have set. The PSA will have effected some improvement but caused shortages of some services while others remain overpriced and under-used.

In spite of a history of failure, petrol prices have been controlled in three States. The PSA wisely chose this non-market situation to test the worth of its brand of price control on the private sector. First, it refused the oil companies the right to make a very marginal adjustment to reflect changing exchange rate parities and later it recommended a price above that set by the Victorian Petrol pricing authority. The economics of the two decisions are obscure, but if the purpose was to prevent a restrictive price regime causing another petrol shortage perhaps the subtlety of its politics should be appreciated. I suspect that the PSA is aware that its continued existence depends on a display of action that will satisfy the trade unionists without doing much real harm to market prices and living standards.

As well as signalling supply and demand, prices transfer wealth, and vested interests will pressurize the government and a politically attuned authority to recommend prices which enhance one group's wealth at the expense of others, perhaps for reasons — like preserving the accord — which have popular acclaim. Then the PSA will cause the gluts or shortages which are always associated with regulated prices, and living standards will be made lower than they could have been. The safest course is probably to abolish the PSA before it does these things.

**There are Better Policies**

If, as the draft guidelines seem to suggest, the justification for a PSA is held to be market failure then it would be both safer and more effective to take steps to eliminate the market failures than to ask bureaucrats to guess what would have been a perfect market price. The problem would then be in the province of the Trade Practices Commission (TPC).

The principal weakness of the TPC is that neither public authorities nor the most obvious example of the restrictive trade practices of the private sector — union monopoly — are subject to its jurisdiction.

Because the public is entitled to know how its governments use the authority entrusted to them, the public is entitled to an assessment of the cost of Conference shipping, railway monopolies, the Two Airlines Agreement, several agricultural marketing boards, bulk handling authorities, taxi plates, metropolitan transport monopolies, the International Air Transport Agreement (IATA), electricity, water supply and sewerage authorities, and many more; but only IATA, and that by accident, is subjected to TPC scrutiny. Interference with prices charged in the non-market sector of the economy, and only in the non-market sector, particularly if justifying arguments are made public, might serve a useful purpose. It might lead to the transfer of activities to the market sector where there can be no place for price fixing or 'persuasion'.

In short, while the PSA could do good by explaining the consequences of the regulation the government already undertakes, primarily it is a political sop to the union movement with a potential for harm. Those monopolies which depend on legislation to exist — that is most monopolies — should be introduced to competition and given over to the tender mercies of the TPC. If that were to happen the PSA would be abolished without loss.
Joseph Schumpeter and the Supply Side

Professor Wolfgang Kasper

Joseph Schumpeter is the third philosopher to be reviewed in this section*. In recent years, we have witnessed many attempts at rethinking economics along "Schumpeterian lines". The reason for the revival of interest in the economics of the Austrian-American economist, Joseph A. Schumpeter (1883-1950), is that the dominant paradigm of the preceding 20 years had proved helpless in the face of the big economic issues of the 1970s.

The short-run demand-side economics of the Keynesian variety has turned out to be bankrupt.

In the recession of 1973-75, one country after another had to discover that demand expansion by fiscal and monetary means no longer reduced unemployment, but only created more inflation! The Whitlam-Cairns experiment of 1973-74, in which public expenditure, domestic monetary policy and exchange-rate devaluation were concerted to stimulate demand along standard Keynesian lines, was not unique to Australia. Nor were the results: inflation, which had run at 6.7% p.a. in the five years up to 1974, jumped to 12.2% p.a. in the five years following the 1974 experiment. Unemployment (1969-74: 1.9%) rose to 5.5% (1975-78).

Simple economics tells us that demand expansion, which leads to much inflation and little real economic growth and job creation, must be met by an inelastic supply curve. And there lies the real reason for the revived interest in Schumpeterian economics, for Schumpeter was first and foremost an economist concerned with the supply side of the economy, and more precisely with the dynamics of the elastic expansion of supply.

A "macro-economic supply curve" is of course a highly abstract notion behind which we have to see the millions of supplier reactions at the level of individuals and firms. Elastic supply means that people respond to demand increases by increasing their production and that they seek their profit in large turnover and low profit margins, often by realising "scale economies" - that is by benefiting from lower unit costs of production through large product runs — and by learning and experience. By contrast, "inelastic supply" stands for a behaviour where any rise in demand is taken as an excuse for a quick gain by price increase, never mind the long term growth of your market.

At a time when the economics profession has been searching for a new paradigm, Schumpeter was also "rediscovered" because the deceleration in the economic growth rate that occurred in the 1970s, fits neatly into a pattern of long waves of accelerating and decelerating growth of supply — "Kondratieff cycles" as Schumpeter had termed them.'

The intent of this essay is to take up a few ideas in the Schumpeterian spirit and to reinterpret them for our time, in the hope that economic policy might be steered towards a more constructive, more dynamic approach that could

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make supplier responses more elastic again.

**Economic Growth Owes Much To Innovation**

It is generally accepted that modern economic growth — the sustained rise in productivity and living standards — is not only caused by the use of more labour and more capital, but also by "third factors", such as better and more fully applied knowledge of technology and management, better skills of the workforce and market growth, thanks to more national and international trade, which facilitates the exploitation of economies of scale. These growth-promoting factors do not of course come about spontaneously to generate wealth. Better, but often risky, new factor combinations are brought about by entrepreneurs if they can expect to do this profitably. The innovating entrepreneur has always been the crucial catalyst that brings off new and better factor combinations and thus benefits society (as well as him — or herself!). If the social climate is hostile to innovating enterprise, then fewer "new combinations" (to use Schumpeter's term) come off. Economic growth, especially third factor growth, slows down.

The central role of entrepreneurship in creating new supply potential is not well understood by the economics profession. This is not only because of the focus on the macro-"mechanics" of demand manipulation, but also because micro-economics is focussed on comparative static equilibrium, rather than dynamic disequilibrium and uncertainty. The entrepreneur, who ensures the vitality of any dynamic economic system, has virtually disappeared from the mainstream economic literature. In the model of the firm, as it is taught to our students, the business leader is "a passive calculator who reacts mechanically to changes imposed [on him] by fortuitous external developments". In the micro-economics we teach, the problems are all well-defined; production possibilities, tastes and prices are given. In this abstract world, the profit maximiser is a "calculating robot" and there is no place for the genuine entrepreneur who is faced with uncertainty and who changes the world. Economists have long focussed on what can be measured and not asked what is really relevant. Yet "... the economy of entrepreneurs can make a plausible claim that it, rather than the world of econometrics, is the real economy!".

**The 1970s Break In The Growth Trend**

In the 1970s and early 1980s, economic growth decelerated in all advanced industrial countries to a large extent because of the slowdown in "third factor growth" (the use of new knowledge, skills and enterprise). One reason for the break in the post-war growth trend that occurred in the late 1960s/early 1970s was that enterprise and innovation became less profitable: growing shares of the national income were claimed by labour (which had become sure that it could not price itself out of the market as governments now guaranteed full employment), by mounting government expenditures, and by oil and food suppliers. When profits were squeezed, private job-creating investment took a nose-dive and the pace of innovation slowed down. Genuine enterprise and "third factor growth" also suffered from a gradual spread of regulations which curbed market opportunities for the entrepreneur (e.g. environmental and safety regulations) and from an increasing "supplier bias" in many markets as a consequence of this.

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until someone has to adjust because he lost his job. This is the condition of inelastic supply. It is also typical of such a situation that many groups begin to defend at all costs what they have gained in the past and obtain government protection for their position (e.g. tariffs to shore up senescent activities and sclerotic industries). The often essential part of the growth process — “creative destruction” as Schumpeter calls it — is resisted, often with government help.

These long waves of accelerating and decelerating growth (and more or less elastic supplier responses) are man-made and can therefore be influenced by policy. Policy can help create conditions in which the productive system is rejuvenated by new entrepreneurs who make old production processes and old products redundant, often by acts of creative destruction, and who generate better “combinations of productive inputs” that raise productivity and create new jobs.

The case can be made that the preconditions would be very favourable for making Australia one of the forerunners of a new Kondratieff upswing, which has probably already begun in the United States. This is because Australia is rich in natural resources and land, because we are located in the most dynamic region on earth (the “tyranny of distance” is no more), because we could benefit greatly by applying new technological ideas that are now coming out of the laboratories and because we have a relatively young, -active population and are not laden down with much of a pension burden.

Yet, to translate these potential assets into real economic growth and productive jobs for our children would require a break with deeply ingrained Australian traditions. To favour individualism and competitiveness and to welcome the success of the entrepreneur is not much of an Australian tradition. Indeed, the exploitation of the potential of “third-factor growth” has not been an Australian forte. If one wants to explain why Australia’s long-term growth rate has stayed below the growth in comparably rich economies in the Northern hemisphere, one will quickly find that this is not because Australians did not work or save enough. Labour and capital inputs grew reasonably fast. Rather, it is because Australian society manages to achieve much less “third factor growth” than other countries. The reason for this is that regulations, interventions and labour-market rigidities have often impeded the scope for genuine entrepreneurship. Product markets are distorted by the tariff and numerous other interventions. Labour markets are not treated as markets, but subjected to centralised quasi-legal arbitration; and work contracts are exempt from standard contract obligations, as far as the employee is concerned. Capital markets used to suffer from the now abolished regulations designed to favour the financing of house building and government deficits.

Regulation has tended to encourage lobbying and favours the mere administration of given, protected markets. But it has hindered risk-taking, pathbreaking and the creation of new markets. The worst casualty of the long-standing interventionist tradition in Australia has been the entrepreneur.

Entrepreneurship is normally motivated by expected profits. But if such profits can be obtained by lobbying in Canberra, by influencing industry restructuring plans and “summits” through political pressure, then fewer entrepreneurial energies are directed towards taking the risk of creative innovation and of expanding production. And if a regulative, lobby-influenced environment for business creates careers for business administrators with good political talent, the engineer and the genuine entrepreneur take a back seat. The entire industrial civilisation of the country becomes un-enterprising!

If we want a resurgence of economic growth in Australia, we have to realise that we shall not get it from pumping up demand with public deficits and welfare spending, but only from mobilising supply factors. This means that markets for labour and capital have to be made more competitive and efficient and that product markets have to be opened up to competition. For this to be really effective in Australia’s small economy, there is no way around adjusting to international competition by removing barriers to our international trade. The tariff is the linchpin of inelastic supply in Australia. It underpins rigid wage and price behaviour. The tariff will have to be phased out.

The Australian attitude, of course, is frequently that tariffs protect us (the newspeak word is “industry assistance”). But we have to realise that the tariff creates inefficiency and destroys jobs. Until we realise that it is in our national interest to liberalise trade and do away with other growth-inhibiting regulations, we cannot expect to achieve faster economic growth and a return to high rates of employment.

**Job Creation and Productivity Growth**

Productivity growth is often seen simply as a way of displacing workers. This is not the Schumpeterian view. A supply-oriented policy would be based on the realisation that new technologies and managerial innovations not only raise labour productivity, but normally make jobs more secure and numerous. If we can produce a certain product better and more cheaply, more resources will normally go into that line of production and more jobs will be created. This is behind the time-tested piece of economics that the marginal productivity of labour determines the demand for labour and that innovation improves productivity.

This is an important insight in a situation where the Keynesian recipe does not work any more: unemployment can no longer be reduced by monetary and fiscal expansion and “mild inflation” to reduce real wages. When labour resists reductions in the real wage by inflation (for example by obtaining automatic indexation), the only promising way out of unemployment is to raise labour productivity and in this way to reduce labour-unit costs, that is the ratio between the wage rate and productivity. After all, it is labour-unit costs that matter for job creation. The way forward is certainly the way towards productivity-raising process innovation and market-expanding product innovation. The alternative of just cutting a “wage overhang” would be socially disruptive and could easily lead to a contractive multiplier process.

We must realise that a renewed, durable upturn in long-term growth can be achieved only if those who invest in productivity growth do not have to expect wage rises that immediately appropriate all prospective productivity advances. This was the case in Australia during the abortive mining boom of 1978 to 1982 when unions and businesses anticipated the expected rise in national production and cooperated to generate a wage explosion: Australian society, in its focus on income distribution and its neglect of the growth of income, distributed the gains from productivity growth before they had even been produced.

This was the purest case in Australian history of an inelastic supply curve, which is the hallmark of the slow growth phase of the long wave. As a consequence, the consumer price level rose by 10.3% annually between 1980 and 1983 and unemployment jumped from 6% to 10%. Such anticipatory wage increases are precisely the way to discourage entrepreneurs from investing in new projects. All that such anticipatory cost pressure achieves is labour-saving and job destruction. But dynamic growth falls by the wayside.

For Australia to succeed in moving to durable, faster growth — even under our favourable Australian conditions — we will have to foster a climate in which entrepreneurs can thrive and profit. If many of them thrive and multiply, they will of course eventually compete prices and profits down. But in the process, they will have expanded job opportunities and the wealth of the nation — and contributed to social optimism, which is possibly the most valuable aspect of a climate of accelerating economic growth.
In the last edition of *Review* we published Prime Minister John Curtin's inspiring speech to the American people in 1941. The following year Robert Menzies, out of Government and seemingly with little prospect of attaining high office again, prepared a series of broadcasts under the general heading "The Forgotten People". The broadcasts, which marked the start of the long road back for Menzies, demonstrated not only his talent for communication but also his instinct for the sentiments and symbols of Australian life. He draws at length on "the great Australian dream" of a home of one's own, "a stake in one's country", and links it to the virtues of independence, privacy, frugality and patriotism.

The following text is an extract from his first broadcast which gave its name to the series. In more modern terms it could have been titled, "The Silent Majority". Governments then, as now, have a facility for responding to the demands of the loudest voice rather than the mainstream of Australian life. Despite the sympathy expressed at the end of his speech for a larger role for government in the future, Menzies is alert to the fact that the real dynamism of a nation comes not from the actions of government, but from the spirit of enterprise in its people.

Quite recently, a bishop wrote a letter to a great daily newspaper. His theme was the importance of doing justice to the workers. His belief, apparently, was that the workers are those who work with their hands. He sought to divide the people of Australia into classes. He was obviously suffering from what has for years seemed to me to be our greatest political disease — the disease of thinking that the community is divided into the rich and relatively idle, and the laborious poor, and that every social and political controversy can be resolved into the question: What side are you on?

Now, the last thing that I want to do is to commence or take part in a false war of this kind. In a country like Australia the class war must always be a false war. But if we are to talk of classes, then the time has come to say something of the forgotten class — the middle class — those people who are constantly in danger of being ground between the upper and the nether millstones of the false class war; the middle class who, properly regarded, represent the backbone of this country...

(In it) I include .... the kind of people I myself represent in Parliament — salary earners, shopkeepers, skilled artisans, professional men and women, farmers, and so on. These are, in the political and economic sense, the middle class. They are for the most part unorganised and unself-conscious. They are envied by those whose social benefits are largely obtained by
taxing them. They are not rich enough to have individual power. They are taken for granted by each political party in turn. They are not sufficiently lacking in individualism to be organised for what in these days we call "pressure politics". And yet, as I have said, they are the backbone of the nation.

...Now, what is the value of this middle class, so defined and described? First, it has "a stake in the country". It has responsibility for homes — homes material, homes human, homes spiritual.

I do not believe that the real life of this nation is to be found either in great luxury hotels and the petty gossip of so-called fashionable suburbs, or in the officialdom of organised masses. It is to be found in the homes of people who are nameless and unadvertised, and who, whatever their individual religious conviction or dogma, see in their children their greatest contribution to the immortality of their race. The home is the foundation of sanity and sobriety; it is the indispensable condition of continuity; its health determines the health of society as a whole.

I have mentioned homes material, homes human, and homes spiritual. Let me take them in their order. What do I mean by "homes material"?

The material home represents the concrete expression of the habits of frugality and saving "for a home of our own". Your advanced socialist may rage against private property even while he acquires it; but one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours: to which we can withdraw, in which we can be among our friends, into which no stranger may come against our will.

If you consider it, you will see that if, as in the old saying, "the Englishman's home is his castle"; it is this very fact that leads on to the conclusion that he who seeks to violate that law by violating the soil of England must be repelled and defeated. National patriotism, in other words, inevitably springs from the instinct to defend and preserve our own homes.

Then we have homes human. A great house, full of loneliness, is not a home. "Stone walls do not a prison make"; nor do they make a house. They may equally make a stable or a piggery. Brick walls, dormer windows and central heating need not make more than a hotel. My home is where my wife and children are. The instinct to be with them is the great instinct of civilised man; the instinct to give them a chance in life — to make them not leaners but lifters — is a noble instinct.

The great question is, "How can I qualify my son to help society?" Not, as we have so frequently thought, "How can I qualify society to help my son?" If human homes are to fulfil their destiny, then we must have frugality and saving for education and progress.

And finally, we have homes spiritual. This is a notion which finds its simplest and most moving expression in "The Cotter's Saturday Night" of Burns. Human nature is at its greatest when it combines dependence upon God with independence of man.

We offer no affront — on the contrary we have nothing but the warmest human compassion — toward those whom fate has compelled to live upon the bounty of the State, when we say that the greatest element in a strong people is a fierce independence of spirit. This is the only real freedom, and it has as its corollary a brave acceptance of unclouded individual responsibility. The moment a man seeks moral and intellectual refuge in the emotions of a crowd, he ceases to be a human being and becomes a cipher. The home spiritual so understood is not produced by lassitude or by dependence; it is produced by self-sacrifice, by frugality and saving.

Second, the middle class, more than any other, provides the intelligent ambition which is the motive power of human progress. The idea entertained by many people that, in a well-constituted world, we shall all live on the State is the quintessence of madness, for what is the State but us? We collectively must provide what we individually receive.

The great vice of democracy — a vice which is exacting a bitter retribution from it at this moment — is that for a generation we have been busy getting ourselves on to the list of beneficiaries and removing ourselves from the list of contributors, as if somewhere there was somebody else's wealth and somebody else's effort on which we could thrive.

To discourage ambition, to envy success, to hate achieved superiority, to distrust independent thought, to sneer at and impute false motives to public service — these are the maladies of modern democracy, and of
Australian democracy in particular. Yet ambition, effort, thinking and readiness to serve are not only the design and objectives of self-government but are the essential conditions of its success. If this is not so, then we had better put back the clock, and search for a benevolent autocracy once more.

Where do we find these great elements most commonly? Among the defensive and comfortable rich, among the unthinking and unskilled mass, or among what I have called the “middle class”?

Third, the middle class provides more than perhaps any other the intellectual life which marks us off from the beast; the life which finds room for literature, for the arts, for sciences, for medicine and the law.

Consider the case of literature and art. Could these survive as a department of State? Are we to publish our poets according to their political colour? Is the State to decree surrealism because surrealism gets a heavy vote in a key electorate? The truth is that no great book was ever written and no great picture ever painted by the clock or according to civil service rules. These things are done by man, not men. You cannot regiment them. They require opportunity, and sometimes leisure. The artist, if he is to live, must have a buyer; the writer an audience. He finds them among frugal people to whom the margin above bare living means a chance to reach out a little towards that heaven which is just beyond our grasp. It has always seemed to me, for example, that an artist is better helped by the man who sacrifices something to buy a picture he loves than by a rich patron who follows the fashion....

One of the great blots on our modern living is the cult of false values, a repeated application of the test of money, notoriety, applause. A world in which a comedian or a beautiful half-wit on the screen can be paid fabulous sums, whilst scientific researchers and discoverers can suffer neglect and starvation, is a world which needs to have its sense of values violently set right.

The case for the middle class is the case for a dynamic democracy as against a stagnant one. Stagnant waters are level, and in them the scum rises. Active waters are never level: they toss and tumble and have crests and troughs; but the scientists tell us that they purify themselves in a few hundred yards.

That we are all, as human souls, of like value cannot be denied. That each of us should have his chance is and must be the great objective of political and social policy. But to say that the industrious and intelligent son of self-sacrificing and saving and forward-looking parents has the same social deserts and even material needs as the dull offspring of stupid and improvident parents is absurd....

Are you looking forward to a breed of men after the war who will have become boneless wonders? Leaners grow flabby; lifters grow muscles. Men without ambition readily become slaves. Indeed, there is much more slavery in Australia than most people imagine. How many hundreds of thousands of us are slaves to greed, to fear, to newspapers, to public opinion — represented by the accumulated views of our neighbours! Landless men smell the vapours of the street corner. Landed men smell the brown earth, and plant their feet upon it and know that it is good....

If the new world is to be a world of men, we must be not pallid and bloodless ghosts, but a community of people whose motto shall be, “To strive, to seek, to find, and not to yield”. Individual enterprise must drive us forward. That does not mean that we are to return to the old and selfish notions of laissez-faire. The functions of the State will be much more than merely keeping the ring within which the competitors will fight. Our social and industrial obligations will be increased. There will be more law, not less; more control, not less.

But what really happens to us will depend on how many people we have who are of the great and sober and dynamic middle-class — the strivers, the planners, the ambitious ones. We shall destroy them at our peril.
A History Of Government Failure

Dr. Denis M. White

Until his break with the Left in the early 1970s, Paul Johnson was editor of the British left-wing periodical, The New Statesman. Now he contributes regularly to the London Spectator through his column on the press, and has written numerous volumes, including a history of Christianity and a study of modern nihilism, The Enemy Within. Paul Johnson has also published in the IPA Review (Summer 1982-83 and Autumn 1983). The extent of his erudition, as well as his commitment to a view of history in which state intervention is not cast in the heroic role, is evident in his latest and largest book, A History of the Modern World.*

Johnson's history is global drama on a grand scale, tremendously readable and well-researched. He offers a mass of interesting information. He often lets major characters speak for themselves, by skillful use of direct quotes. This revealing technique brings authenticity and freshness to the narrative.

The book deals with every part of the world, and many areas of human achievement. Johnson makes full-blooded judgments of people and events. He demonstrates starkly the irresponsibility of yielding to adventurers and misguided do-gooders. He offers a lesson in the importance of good management in human affairs. His analysis seems essentially right-headed.

Two government plagues, says Johnson, have blighted man from the twenties to the eighties: market meddling and social engineering. In

developing these twin themes, Johnson persuasively overturns conventionally accepted assessments that blame capitalism and the market for most twentieth century tragedies. The zest he brings to the demolition of such misinterpretations is fuelled by his belief that the modern world is dangerously susceptible to well-packaged mythology.

A good example is the great depression. Conventional wisdom says it was caused by unrestrained capitalism, and cured by Keynesian interventionism under Roosevelt. Not so, says Johnson. He argues that the depression was both caused and prolonged by market meddling.

He contends that when the depression hit, the interventionist solution was tried not only by Roosevelt, but also by Hoover immediately before him. Hoover "sought to use government cash to reflate the economy" (244), and "Roosevelt's legislation for the most part extended or tinkered with Hoover policies" (255).

Johnson wryly comments: "If interventionism worked, it took nine years and a world war to demonstrate the fact" (257). By contrast, the German economy recovered much more quickly, Hitler having the sense not to try to run the economy (293). Johnson's overall assessment of interventionist policies is that "political activities rarely promoted economic well-being, though they might, if intense and protracted enough, undermine it. The most useful function of government was to hold the ring, within which individuals could advance their own interests, benefiting the communal one in the process" (612).

In fact, however, misguided meddling went on repeatedly and disastrously in most countries from the 1920s to the end of the 1970s. Johnson is encouraged that by then, "most governments were seeking to reduce the public, and expand the market, sectors of their economies" (728).

Johnson shows how some nations have resisted world trends, and lifted themselves out of the ruck. He cites two particular success stories. One is the market economies of the Pacific, which are also notable for their lack of natural resources.

The other is the revival of Europe. This was achieved by Adenauer and de Gaulle, "two old-fashioned conservative Catholics,... whose view of the world had been formed before 1914, but who had remained astonishingly alert to the changes and opportunities which the tragic events of their lifetimes had brought about" (598).

The state, whose share of GDP has risen from 5-10 per cent in 1914 to 45 per cent today, "was the great gainer of the twentieth century; and the central failure".

De Gaulle gets Johnson's accolade as "the outstanding statesman of modern times" (596), because he enabled France to reverse the historic trends of the 1930s and again become a dynamic nation. Churchill and Eisenhower were "the two greatest statesmen of the mid-century" (463).

Eisenhower carefully understated himself. His decade was the most prosperous of modern times. He held federal spending despite enormous pressures (464). Eisenhower said, "There is no defence for any country that busts its own economy". This makes an interesting contrast with JFK, who apparently invented the term "big government", and described it as "the problem eliminator" (638). Lyndon Johnson in turn described his domestic spending as "the beautiful woman". On a different plane, Jimmy Carter said America's power to influence events was "very limited" (674). Johnson sums up his assessment of the US in the period between Eisenhower and Reagan in the chapter title: "America's Suicide Attempt".

Johnson's overall assessment of the performance of government is scathing. He says that the state, whose share of GDP has risen from 5-10 per cent in 1914 to 45 per cent today, "was the great gainer of the twentieth century; and the central failure" (729). It has proved "an insatiable spender, an unrivalled waster". His observation that the twentieth century state has proved "the great killer of all time" shifts the spotlight to social engineering.

Social Engineering

Stalin collectivised the Russian peasantry at a cost of some 10 million human lives (271). Hitler "murdered at least 5,800,000" Jews in the name of the final solution (415). There are no figures about how many millions died during the Great Leap, when Mao transformed the "economic, political and administrative life" of 700 million
people in 7 months (550). Soviet and satellite policies made refugees of 9 million people in the 1970s (709).

These are the grosser outbursts of social engineering. But they highlight a virtually universal trend. Always and everywhere, says Johnson, there are “plans”. “At the democratic end of the spectrum, the political zealot offered New Deals, Great Societies, and Welfare States; at the totalitarian end, cultural revolutions” (729).

Accordingly, he regards professional politicians as “the great human scourge of the twentieth century” (510). Johnson hopes that “the age of politics” died in the late 1970s, along with the belief that politics is “the cure for human ills” (729-30). But he does not put his hopes very high.

The birth of this “political” age arose from many historical circumstances. Johnson dates the modern world from Einstein’s theory of relativity in 1919, and notes how this theory was rapidly confused with moral relativism. But the environment in which our world was incubated also included the horrors of the War, a greatly expanded government role, the Versailles peace settlement, the Bolshevik Revolution, Freudian psychoanalysis, the decline of religion, the collapse of legitimacy. It was a potent breeding-ground.

The 1920s were the “last Arcadia” (Ch.6). The taciturn Calvin Coolidge, US President from 1923-28, and almost universally denigrated ever since, is one of Johnson’s heroes. “No public man carried into modern times more comprehensively the founding principles of Americanism: hard work, frugality, freedom of conscience, freedom from government, respect for serious culture” (219).

Coolidge said “economy is idealism in its most practical form”. He made out a good case for his legendary terseness: nine-tenths of a president’s callers at the White House “want something they ought not to have. If you keep dead still they will run out in three or four minutes”. On resigning the Presidency, he snapped at the Press: “Perhaps one of the most important accomplishments of my administration has been minding my own business” (221). But the runs were on the board: by 1929, the United States was contributing a record 34.4 per cent of total world production (228).

During the locust years of the 1930s, a man like Coolidge shines like a star in hell. As Hitler and Stalin clawed their way through history, the spirit of the Thirties “repudiated the virtues of capitalist enterprise and embraced those of collectivism” (259). John Strachey is the epitome of Western blindness. Strachey said: “To travel from the capitalist world into Soviet territory is to pass from death to birth” (260).

Then came the Second World War, followed by Soviet expansionism and decolonization. The new states, in their desire for rapid development, were particularly fertile ground for social engineering and excessive politics. The management of international affairs became exceedingly difficult, especially when the predominantly left-wing totalitarian and one-party states became numerically preponderant in the United Nations. These problems are unresolved.

**Moral Relativism**

A major theme of the book is the debilitating impact of moral relativism — the view that values are a matter of opinion, and incapable of ultimate proof or disproof by rational argument. Johnson blames moral relativism for Hitler's Germany, Stalin's Russia, and modern terrorism. This overstates the case, for no arguments, valid or not, would ever cut any ice with these dictators.

But the fact remains that moral relativism has led some people to wash their hands of their responsibilities. This has produced some disastrous consequences: one example is the “principle introduced by Hammarskjold that killing among Africans is not the UN’s business” (537).

Of course moral relativism in no way removes moral dilemmas. In particular, if argument is impotent against expansionist tyranny, what are good men to do? This age-old question is far more acute in a world where the reach of totalitarian technology appears unlimited by time or space.

It is in Johnson's view tragic that nobody has been able to give a better answer than the need to respond in kind. Johnson does not himself offer a solution — and who can blame him — although he toys with the old natural law theory (402-3).

But he does spell out the result in the starkest terms: “moral corruption operates a satanic Gresham’s Law, in which evil drives out good” (428).

Johnson has done far more in this book than merely contribute to historical scholarship. His free market/limited government interpretation of the modern world adds enormous weight and conviction to the private enterprise cause.
The IPA Policy Unit in Western Australia

It would also review policies and performance of State statutory authorities in order to determine which of those activities can be better performed in the private sector and, in the case of others, how economy and effectiveness of performance can be enhanced.

The Unit would also be examining the regulatory activity of State governments with a view to reforming regulatory procedures and identifying areas for deregulation.

The IPA has advertised for a Research Director and other staff.

It is expected that the States' Policy Unit office will be opened before the end of the year.

Joint Conference with U.S. Think Tank

The IPA will be holding a joint conference with the American Enterprise Institute.

The AEI is a leading Washington-based "think tank" noted for its expertise on economic and foreign policy issues. The AEI has had a major impact on public debate in America. The issue of regulation, for example, is just one that the AEI has placed on the political agenda in America.

The AEI's Public Policy Week held each November has become a major Washington event attracting some thousands of attendees.

The Director of the IPA, Rod Kemp, said that this would be the first occasion on which the American Enterprise Institute has held a public forum in Australia.

Two one-day conferences will be held early in 1986, one in Sydney on Wednesday March 19 at the Hilton Hotel and the other in Melbourne on Friday March 21 at the Victorian Arts Centre.

Details of the conferences will be forwarded to IPA members in the coming months. In the meantime those wishing to attend should mark the dates in their diaries.
Ideas and Insights: a new IPA series

October sees the publication of the first of a series of IPA Occasional Papers, Ideas and Insights. The series will bring to readers speeches and papers which make notable contributions to public debate. IPA subscribers will receive these publications as part of their subscription.

Ideas and Insights No. 1 is by John Stone, former Secretary to the Treasury and IPA Senior Fellow, and is titled 'Deregulate or Perish'.

The importance of the paper lies in the scope of its analysis and the warning it sounds if the imperative to liberate market forces from the burden of government regulation is ignored. The Federal Labor Government has deregulated in some areas, namely financial markets, but as John Stone argues, it has failed to apply the same logic to other areas of the economy, with adverse consequences for resource development, employment and the capacity of Australia to retain skilled and talented people.

MEMO: Current IPA Subscribers
FROM: Rod Kemp, Director
RE: Subscription Drive

The response to the “new look” IPA Review is most encouraging, judging from the increased numbers of new subscribers.

We believe you will want to ensure that IPA publications are even more widely read.

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Return the form on the facing page and we will forward to you (while stocks last) a copy of the U.S. Taxpayers’ Survey of The Grace Commission Report.

Sponsored by the IPA, the visit of J. Peter Grace, who headed President Reagan’s “razor gang”, created widespread public attention and this useful publication provides a most interesting summary of key aspects of the Grace Commission Report.

IPA's in-house research

Contributors to the IPA Review as the section on page 2 of this Review indicates, include experts from business, universities, the media and the public service.

However, a notable feature of the IPA, according to the Director, Rod Kemp, is the existence of a strong, in-house research team.

Jacob Abrahami is the IPA’s Senior Economist. Much of his work over the last year has been towards developing measures by which government performance can be assessed.

The IPA’s public sector inflation index has received widespread recognition and is regularly used to assess the price discipline of the public sector. Research on matters such as non-market employment and public authority dividends has also attracted considerable attention.

Dr. Ken Baker is the IPA’s Research Fellow having joined the Institute part-time in 1983 while completing a PhD and tutoring in sociology at La Trobe University. He has since moved to full-time employment at the Institute.

Dr. Baker’s work has focussed on the media and the ideologies of government cultural authorities. His work on agenda analysis has been useful in identifying bias in both areas. Readers of the Review will be aware of his research on the ABC and the programme of the Australian Bicentennial Authority.

New IPA Review launched

The IPA Review is selling on newstands throughout Australia for the first time.

The new format of the Review will allow an even greater range of issues to be covered, according to the Director, Rod Kemp.

The “new look” Review was launched by Hugh Morgan in July at a press conference in the IPA Offices.

“'The IPA Review has always been about contesting the battleground of opinion, and from now on, that battleground will be more and more, in public view” said Mr. Morgan.

The IPA agenda includes “asking fundamental questions about the role and nature of the state; about what sort of society Australia is to be; about what is the relationship between the family and the state; about where the churches fit into what has been called a post-Christian era.”

The Director, Rod Kemp, said the Review had attracted a large number of new subscribers to the Institute. He pointed out that a subscription carried an entitlement to the full range of IPA publications — Policy Issues, Facts and Occasional Papers.

It also ensured that subscribers would hear of IPA forums and lectures.
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(While stocks last)
Four Corners accused of radical bias

By SEATON ASHTON

A survey of the ABC's Four Corners television program shows a "pattern of bias," which is a violation of the corporation's guidelines on impartiality and balance, according to a researcher who has studied the program with the Institute of Public Affairs, Dr Ken Baker.

The institute is one of the 40 Four Corners programs monitored in the survey, done last year in "the ABC's charter utility and balance.

The ABC's charter utility and balance

The ABC, with its charter utility and balance, is intended to provide a fair and balanced representation of all viewpoints on public affairs. However, the survey found that Four Corners, as well as other ABC programs, have been found to exhibit bias.

IPA: champion of free enterprise

The Institute of Public Affairs (IPA) is a non-profit educational organisation financed by business enterprises and people throughout Australia. The IPA promotes awareness of the social and economic implications of public policies and encourages greater public participation in political decision-making.

March of the public army

This year, the ABC's Four Corners program has come under fire for its perceived bias, and the IPA has called for a review of the program's charter utility and balance.

IPA: champion of free enterprise

A JOURNALIST who gets bitten by the media presumably can expect little sympathy, even when the teeth are long to the publicly-funded Australian Broadcasting Corporation.

But, at least, a journalist can snap back. The perception was aroused by the ABC program's depiction of the lives of the five prime ministers of Australia. An attempt to provide the ABC program's depiction of the lives of the five prime ministers of Australia.

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The Institutes of Public Affairs seek to promote awareness and debate in matters of community interest and public policy. A basic aim of the Institutes is to advance the cause of political and economic freedom. In pursuit of this aim they endeavour to inform the Australian public about the workings of our economy and society.

The IPA Review, produced by the IPA in Victoria on behalf of all the Institutes, publishes its internal research work as well as drawing on expertise in academia, business, the professions and other sections of the community.

The Institutes are non-profit, non-partisan educational organisations financed by business enterprises and people throughout Australia.

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