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Australia's $25 Billion Government "Overhang"

Much of the discussion on the appropriate size of government in Australia misses the point. The proper size of government is largely limited by the taxes people are prepared to pay. The Australian taxpayer is clearly not willing to fund the current level of government spending. No Government is prepared to commit itself to raising the taxes necessary to support its spending ambitions. As a result public sector borrowings have skyrocketed along with interest rates as the public sector competes for savings.

The national debt has climbed from around $27 billion in 1977 to over $100 billion in 1986. On current trends it could reach $160 billion by 1990. The colossal interest bill on debts of this magnitude is now distorting every aspect of national economic life. But if taxes and interest rates are going to be reduced, if the national debt is to be held to manageable proportions, the size of the public sector will have to be significantly reduced.

Recently, the Government has been contending that, with the wage "overhang" (wage costs exceeding productivity) eliminated and with a 30 per cent depreciation in the dollar since early 1985, Australia now appears to be highly competitive internationally on historical comparisons of costs. This, it is being suggested, provides a basis for a resumption of strong growth in business investment. Yet that is slow in coming.

One reason (among a number) may be that no progress has been made to date in reducing the other "overhang"—the overhang of government spending in relation to the willingness of Australians to finance public sector spending. This overhang first appeared under the Whitlam Government and has expanded subsequently.

To reduce Federal, State and Local Government spending to pre-Whitlam levels (around 33 to 35 per cent of GDP) from the current level of about 43 per cent of GDP would require a reduction of some $20 to $25 billion in the outlays of governments.

This was an era when public sector deficits were very much smaller and the tax revolt was nonexistent. Indeed given the spending propensities of Australians it may well turn out that around 33 per cent of GDP is the "natural" and acceptable level of government spending in Australia.

Such a figure is admittedly a rough estimate. Nevertheless, it has to be stressed that only a reduction in the relative size of government of this order will enable real tax cuts, (i.e. the freeing of substantial amounts of private sector incomes for more productive activity) and a start to be made on reducing the size of the national debt.

One of the positive political developments of the last two years has been the emergence of a consensus between the major political parties that the year by year expansion in government spending cannot continue. There is a recognition, albeit belated, that in a democratic society people are not prepared to go on indefinitely paying higher and higher taxes to finance programmes that are, in many cases, providing costly or no solutions at all to the problems they seek to solve. It is also a recognition that, as Des Moore points out in this Review, continued deficit financing can create major ongoing economic problems.

But, encouraging as this political development may be, there is a need to go much further. The overhang must be reduced by cutting government spending in real terms, not simply holding it constant relative to GDP (as Labor promises) or even holding it constant in real terms (as the Liberals have said they would do). Jacob Abrahami, in Focus on Figures, outlines various possibilities. For example, a 3 per cent average real reduction in government spending each year would, if GDP were to grow at around 3 per cent per annum, reduce the share of government to 33 per cent by 1991/92.

What we need now is for political parties, State and Federal, to set long-term targets for expenditure growth (or rather diminution) which provide the necessary guidelines for public sector management. Such a programme is essential if we are to end the distortions which are cumulatively damaging our economic prospects.
John King started with McDonald's as a crew member. It was when he was promoted to the management team that his responsibilities grew.

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More than a restaurant.
The Crushing of Middle Australia

Tim Duncan

The living standards of middle Australia are either stagnating or falling. Taxes and interest rates are the main culprits. Tim Duncan argues that these developments have profound implications for government stability and performance of the Australian economy.

No matter how smooth the administrative style of Labor, the state of "middle" Australia might well turn out to be the greatest threat to Labor's hope of becoming the natural party of government. Becoming the "natural" party of government is Labor's great hope. The dream is that in this era Labor might replicate what the Liberals under Menzies achieved in the decades after the war. While the electoral pragmatism of Hawke has brought Labor a long way, the fact is that Menzies owed his long era of government to the general perception of rising comfort and greater personal control that grew within the vast Australian middle class.

Community expectations that hard work and enterprise will be rewarded by improving living standards have been shattered by the explosion of government spending and debt. In the last decade and a half public spending has grown from 32 per cent of our GDP to nearly 45 per cent today. This is perhaps the most far-reaching structural change the Australian economy has experienced, and it has brought with it an explosion of taxation and record interest rates which threaten to cripple the middle class.

Housing Costs

What's happening is this: home buyers are spending on housing payments twice what their forebears spent in the late 1960s, while governments are taxing them more ruthlessly than ever before. Whether you earn below average weekly earnings or whether you earn three times the average, the trends are consistent. It's the same for singles and for people with families.

The fact is that government alone now imposes the ceiling on the aspirations of middle Australia. Compared to their parents middle-class Australians are now starting from behind. This is an unprecedented state of affairs in our society—government is beginning to crush the very people who are its main pillar of support. The rock-solid, taxpaying Australian middle-class family is getting nowhere.

Look how dramatically the situation has changed:

- An experienced teacher can earn around one and a half times average weekly earnings. In the 1960s that was around $24,150 in today's dollars whereas now it's roughly $32,500 (all dollar figures here are expressed in constant 1985/86 values). In the late 1960s teachers like this with two children retained $19,563 after tax, that is 81 per cent of earnings. They would have paid around $3,350 in annual house payments, or 17 per cent of post-tax earnings. But in 1985/86 such teachers would have retained $23,757 after tax, or only 73 per cent of earnings. They still looks like they would be around $4,000 better off, but they're not. They have almost totally lost that gain on housing. Their house payments would have shot up to around $7,200 or around 30 per cent of post-tax earnings. After tax and housing, teachers like this retain only around 46 per cent of their gross earnings now, whereas in the late 1960s they retained 62 per cent.

- Take the case of a marketing manager on twice average weekly earnings, or $43,400. His earnings after tax have dropped from 75 per cent of gross in the late 1960s to 65 per cent now. But he is paying for housing two and a quarter times in

Dr. Tim Duncan is Melbourne correspondent for The Bulletin and author, with John Fogarty, of Australia and Argentina: On Parallel Paths, MUP, 1984.
real terms what someone like him would have paid in the late 1960s. He's getting it in the neck from both directions.

- Look at the lot of a university professor, the highest academic achiever, earning around $65,000 or three times the average weekly earnings. His housing costs have gone through the sky like they have for everyone, but look how he has been crippled by tax. In 1978/79 he took home $40,867. Now he's bringing home only $36,748, just the same as someone like him did in 1973/74. Incomes like these have been stagnant for 12 years, just because of tax.

- Let's look at the classic middle-class family of today. Say the husband is on twice average weekly earnings—he's in administration. His wife is back at work and is paying average weekly earnings for a part-time job. But they're not getting ahead. In 1978/79 a couple like this brought home after tax a combined $48,360 and they spent around $7,350 on housing. But now they are bringing home $46,375 but spending $9,500 on the house each year. Compared to only seven years ago the middle-class family of today is $4,000 a year worse off.

The graph and table accompanying this article show the general picture quite clearly. Since the late 1970s, taxation began to take so much more income that people on higher incomes began to take home less after inflation while the take home pay of those on lower incomes ceased to grow.

In these circumstances middle-class Australians have been unable to cope with the rise in housing costs, especially the latest surge that began with the astronomical rise in interest rates. The impact of taxation and housing costs could hardly have bitten deeper. Whereas in the late 1960s middle-class homeowners retained about 60 per cent of their income after tax and housing payments to spend as they chose, now they retain only from 40 to 45 per cent of their incomes. This is a momentous phenomenon. Over the last couple of decades the middle class has lost from between a quarter and a third of its flexibility to freely consume or invest. By any measure a most fundamental middle-class freedom, the freedom to spend, has been drastically eroded.

Such has been the extent of the squeeze on middle-class incomes that it is hard to imagine the inroads continuing at the same rate. At some point or another genuine and effective resistance is likely to emerge, and it is a very good bet that this will be manifest in a collapse of the middle-class consensus that has characterised Australian politics in the post-war era. The question then arises as to how the political parties are going to respond to the demands of a new era of governing in the absence of middle-class consensus. Experience is unlikely to provide much guidance. A restless, frustrated middle chunk of the population is a phenomenon our current generation of political professionals has never experienced.

Social Critics

- The critics will carp. Surely what the middle class has lost in taxation over time it has reaped in social benefits? This, very broadly, is the position held by a number of Australian social democrats, first among them the influential chairman of the Public Service Board, Peter Wilenski.

Doubtless there's something in this argument. Some of the middle class are great consumers of government education and health. They are certainly disproportionate consumers of senior and higher education. They use subsidised theatre and opera, they take advantage of our splendid new national parks, and they are the ones who most contemplate the treasures of our national heritage. The middle class tends to be the most vociferous when attempts are made to withdraw its services.

The problem with this is that although people may enjoy what the state provides them with, they do not directly measure their well-being according to the extent and quality of state services within their reach. More commonly they measure their well-being according to the extent and the quality of the resources over which they possess control. Private property and collective property are not commensurable, and this is where the social democrat equation breaks down. The personal ownership of property is the source of control over it. In turn, control over property is the necessary condition for deriving maximum utility from property. From the personal ownership of property stems the ability of an individual to control his or her own affairs, and to freely choose what extent and what sort of goods and services best suit individual needs and aspirations.

Take the example, say, of education. The traditional reasoning has been that individuals receive in the form of schools, teacher services and facilities what they pay in taxes. But in fact, a key element is not accounted for in this equation. By paying taxes, foregoing private property and receiving in return a social benefit people give up an element of utility they could otherwise extract from their income and they don't get it back. This is
because they lose control of their ability to choose where their children will be schooled and by what sort of people.

It is clear that many middle-class people value control to the extent that they will pay a premium to retain it. Let’s broaden the example. Since the late 1960s personal income taxes have grown steadily and so too have the social benefits provided by the state. But it is also clear that some of these benefits are more highly valued by the middle class than others. They have a high propensity to consume higher education provided by the state, but of course, the state possesses a monopoly on higher education. Where there are alternatives to state-provided services, the middle class has a high propensity to take those alternatives. It will insure for private health care and it will save for private schooling. On balance it seems clear that middle-class Australians do not derive the same utility from government-provided health and education services as they do from spending their own money on similar services but over which they have greater control.

This reality is plainly acknowledged throughout the community of taxpayers. Our politicians have been trying to sell the idea of a ‘social wage’ for over a decade now. But the idea doesn’t work and no amount of slick advertising of what governments can do for you will make it work. However else they are understood, social benefits are not perceived as wages. Because of this, it is unlikely that middle-class Australians will interpret the decline or stagnation of their personal incomes in anything but a negative light. The currently defensive rhetoric emanating from apologists for the continuing growth of the public sector—the Fair Go for All Australians idea—is unlikely to be falling on very fertile ground.

A vast middle class under pressure is not going to produce pretty or even necessarily rational responses. More likely than not the appeal of populist style leaders will grow in these conditions and already there are signs this may be taking place outside the mainstream parties. Recent developments suggest that Australia has become fertile ground for the populist style which is characterised by emotional promises to empower ordinary people, scapegoating of various kinds, and a plethora of simple solutions.

The parties are beginning to be affected, although in different ways. The National Party is witness to the rise of the National Farmers’ Federation, rapidly turning itself into an independent political force under the leadership of Ian McLachlan. All manner of populist splinter groups are now growing in what otherwise might be considered Liberal Party territory. It would be wrong to think
that these groups are supported exclusively by owner-operators. It is likely that their growth also reflects the frustrations and constraints now being suffered by the salaried middle class.

Menzies and Hawke

The Labor Party too is being affected, although it is more difficult to assess precisely how since the ALP holds office and is thus subject to so many more pressures and strains. Perhaps the currently confused attitudes to Bob Hawke are a good measure of the new populist demands on Labor. Hawke’s electoral appeal to swinging voters is largely based on his ability to promise middle class relief and leadership. But the disappointment associated with Hawke probably reflects the reality that under his rule taxes have increased and the burden on the middle class has correspondingly grown.

With the vast middle class under such pressure, claimants to the public purse are likely to have a harder time. For every Australian private sector taxpayer there is now a corresponding government employee or welfare recipient. It is well known that public servants are not well regarded, yet they as much as their private sector counterparts are bearing the burden. But a good indicator of how welfare recipients are regarded is probably the popularity of the Australia Card. Many people see the card as a means to get parasites off the government payroll and out of the pockets of the taxpayers. In this sense the Australia Card is an exercise in scapegoating which appeals to the self-interest of frustrated middle-class taxpayers. It is a good measure of how rare altruism is likely to become if the pressure on the middle class continues. Taking the Card as a guide, the Labor Party seems to understand this aspect of middle-class frustration better than the Liberal Party at present. This may come as a surprise to those who take altruistic party platforms at face value.

Liberal Party rule under Menzies virtually shut Labor out of government. Since 1983, the Labor dream has been that, after a couple of terms of demonstrably responsible administration, Australians would come to regard benign Labor rule as the proper style for the country, and that with the post-war suspicion of Labor at last gone from memory the Party could comfortably set about charting its course for the 21st century.

The only hitch in this logic is whether Menzies’ longevity was derived from his demonstrably responsible administration or from something else.

Although voters do reward responsible administration, and certainly punish irresponsible administration, decades of political loyalty are not determined by a government’s style so much as a people’s sense of well-being. It is likely that Menzies owed his long era of government neither to business or the unions, nor any set of lobbies, but to the steadily improving living standards of the Australian middle class.

Quite clearly, this has not been the experience of the middle class since the late 1970s, and it certainly is not the experience of the middle class under Labor. While the middle class endures the contraction of its personal means, no amount of incommensurable ‘social’ wages will suffice to consolidate Labor as the ‘natural’ party of government. These circumstances apply just as readily to the Liberals—its halcyon days as the natural party of government will remain confined to memory for as long as the Australian middle class is subjected to a weekly struggle to make ends meet. The fact that two incomes are now required for a family to make a fight of it merely underlines the likelihood that increased political volatility is in store.

Technical Note

Estimates of average income tax expressed in constant 1985/86 values were compiled by Professor Michael Porter, Andrew Chisholm and Geoff Bascand at the Monash University Centre of Policy Studies. Spouse rebates or deductions and family allowances (after 1973/74) are included, as are Medicare and health insurance levies. The average weekly earnings series was taken from Reserve Bank, Occasional Paper Series 8a, while estimates of wages growth for 1985/86 have been taken from 1986/87 Budget Paper No. 1.

The estimates of mortgage payments by income groups were compiled by Robert McLean, an economist with a major Australian banking group. The required statistical series not being available, McLean compiled ratios of mortgage payments by income groups from the ABS Household Expenditure Surveys of 1974/75, 1975/76, and 1984 and the 1981 Census. From new mortgage raisings statistics he applied appropriate interest rates and found average annual housing payments for selected years. To these averages he then applied the relevant ratios of mortgage payments for each income group in appropriate years.

The author combined the housing and taxation estimates to find housing payments as a proportion of post-tax income and to construct estimates of residual income after tax and housing.

The results were first published in the Bulletin in December 1986. Thanks are due to the abovementioned for their statistical help and advice, but it should be pointed out that the opinions in this article are the author’s own.
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Where Reaganomics Went Wrong
Lessons for Australia
Des Moore

Des Moore, who has recently returned from the United States, argues that both the US and Australia have been pursuing similarly erroneous economic policies and with similar results; that both now face the need to effect major economic adjustments; and that, if Australia is to avoid a major recession, it must adopt much firmer economic policies than hitherto.

For some years ahead, the outlook is for sluggish US economic growth at best, and for weaker resistance to Soviet expansion. Of course, the US remains the economic and military giant of the Western world. But it is a giant with much diminished energy and with diminished capacity to reach a political consensus on external involvements. Australia needs to take this into account in framing its own economic and defence policies.

The Reagan Administration was swept into office in 1981 on a well-intentioned platform of reducing the role of government and the burden of taxation, thereby improving national productivity. It also aimed to reduce the widening gap between the defence capacities of the US and the Soviet Union.

Defence spending has indeed been increased substantially and is now around 6.5 per cent of GDP, about 1 per cent more than in 1981. Even so, it has not kept pace with Soviet military expansion, described recently by one commentator as “the biggest and largest military expansion in world history, even exceeding Germany’s in the 1930s”. Further, with the budget problem, US defence spending is now slowing markedly. Beyond this, there is an increased reluctance, enhanced by the Iran-Contra debacle, to become entangled in external situations.

On the economy, the attempt to stimulate the supply side has failed utterly. Following a cyclical rebound in 1983 and 1984, the sub-par productivity performance that began in the early 1970s has re-emerged and shows few signs of improving. While there are legitimate questions about the accuracy of productivity measures, there can be no doubt that the economic policies pursued under the Reagan Administration have left a legacy of deficits and debt that has seriously weakened the giant’s growth potential and severely constrained policy options. Without an early, major adjustment in policies—which appears unlikely—there is a serious risk of a major recession developing in the US at some time in the next 2-3 years.

Under the Reagan Administration there has been a massive expansion in the budget deficit from around 2 per cent of GDP in 1981 to around 5 per cent in 1986. This has reflected both an increase in outlays and a (relative) reduction in revenues.

| Increase in Federal Government Deficit, 1981-85 % To GDP |
|-----------------|---------|---------|
| Increase in Outlays (a) | Reduction in Revenues | Deficit |
| 1.6 | 1.2 | 2.8 |

(a) Purchase of goods and services plus transfer payments.

Although two-thirds of the increase in outlays has reflected higher defence spending, non-defence outlays (mostly interest) have also taken an increased share of GDP. Notwithstanding its commitment to smaller government, the Reagan Administration has been unable to persuade Congress to reduce non-defence programmes to any significant extent. Given the initial tax reductions,
and the President's subsequent stubborn refusal to contemplate tax increases, the inevitable result has been the increase in the budget deficit and in outstanding government debt.

Moreover, the effect of this Keynesian stimulus has been to increase national spending at a faster rate than output, resulting in an excess of imports over exports and a rising external debt. An increase in borrowing by the government does not, at least in the short run, lead to a reduction in borrowing by the private sector unless firm monetary policies are pursued. In fact, since 1982 monetary policy has been increasingly "accommodative", as reflected in the steepening yield curve. The net result, reflected in similar movements in the twin deficits—budget and external—has been to "suck in" overseas savings to finance the excess of domestic spending relative to output.

### The Twin Deficits Connection

<table>
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<th>Balance on Current Account</th>
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<tr>
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<td>-0.6</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>-2.2</td>
<td>+0.1</td>
</tr>
<tr>
<td>1981</td>
<td>-2.1</td>
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<tr>
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<td>-4.9</td>
<td>-2.9</td>
</tr>
<tr>
<td>1986 (est)</td>
<td>(-5.0)</td>
<td>(-3.4)</td>
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</table>

There would be much less concern about this development if the overseas borrowing (in one form or another) had been used to finance additional investment in productive capacity in import-replacement or export-adding industries. In fact, since 1981 business investment has not only declined relative to GDP but has largely gone into other areas while personal and government spending have increased significantly, i.e. the US has been "living beyond its means" by borrowing from overseas to finance a spending spree that has left a legacy of debt without matching productive assets.

The strong expansion of personal consumption and housing expenditure reflects a variety of influences, including the additions to disposable income flowing from the tax cuts and a strong increase in consumer borrowings as financial institutions competed strongly in a seriously flawed regulatory environment which has encouraged excessive risk-taking by those institutions. Increasing consumer borrowings have also been encouraged by the lower interest rates flowing from an increasingly "accommodative" monetary policy and by the tax deductibility of all interest (now limited to mortgage interest only). Consumers have presumably felt comfortable about accepting increased debt in circumstances where booming share and real estate prices increased real asset values and resulted in continued growth in real net worth.

In this environment corporations have also been encouraged to increase their debt as the proliferation of innovatory financing techniques has allowed financial institutions to spread risks more widely. While the strong growth in corporate profits, and falling interest rates, have since 1982 kept interest expenses relatively steady as a proportion of pre-tax profits, at around 40 per cent of the latter they are now significantly higher than in the 1970s (around 30 per cent) or the 1960s (less than 20 per cent).

Taking the private sector as a whole, since 1980 debt expansion has far outpaced the growth of national income. Given the sharp rise also in Federal Government debt, the US economy is thus now more highly leveraged and vulnerable to unanticipated increases in interest rates or to a slower growth (let alone a fall) in national income. The US has also moved to being an external debtor, with net annual interest payments overseas already running at over 0.5 per cent of GDP.

### The Policy Responses

Belatedly, the Administration (and Congress) have now recognised the twin deficits connection and are giving greater priority to reducing the budget deficit. In the 1987 financial year the budget deficit could fall by $40 billion to around $180 billion (about 4 per cent of GDP) and the Administration is proposing a deficit of $108 billion for FY 1988 that would, potentially, be around 2.25 to 2.5 per cent. The reality, however, is that Congress is most unlikely to accept the reductions in spending needed to achieve the FY 1988 deficit proposal and, with a weak economy, may seek to increase some programmes. For its part, the Administration is most unlikely to accept the tax increases that are now clearly needed to overcome the deficit problem and to provide adequate defence capacities. The most probable result is, thus, a continued high budget deficit and a constrained programme of defence spending.

The other main focus of Administration policy has been to try to reduce the external deficit by a combination of "massaging" the $US rate
down and of prodding external surplus countries such as Japan and Germany, to stimulate their domestic demand and, hence, their demand for US exports. However, this approach is unlikely to produce early significant favourable effects on the US external account. Moreover, so long as there continues to be a large US budget deficit, any improvement in the external deficit is likely to be no more than temporary without an increase in US productivity.

The Outlook

The accumulated effect of "loose" fiscal and monetary policies has been a significant increase in debt that is now operating to constrain domestic spending on both consumption and investment. At the same time, the likely continuation of such policies will make it difficult to reduce national spending to an extent sufficient to significantly improve the external deficit. This creates a potentially unstable situation. As some have observed "if we don't take action ourselves, the financial and foreign exchange markets will do it for us" by putting upwards pressure on real interest rates and/or downwards pressure on the exchange rate, as borrowings and debt increase relative to national income. At some point, the higher real cost of borrowing, either "forced" by capital markets or by a tightening of monetary policy to steady the exchange rate or to control inflation, would reduce the growth in national spending, with the risk being that a sharp reduction would result in widespread incapacity to service the high corporate and consumer debt, bringing about an economic and financial crisis. Even if one discounts that possibility, there remains the prospect that a continued "crowding out" of business investment will result in deteriorating economic performance and pressure for "re-regulating" the economy. Imports, increasingly constrained by export restrictions accepted "voluntarily" by foreign countries, could be further restricted.

Clearly, the US should be giving top priority to an early, major reduction in the budget deficit, preferably by cutting non-defence spending programmes but if necessary through a tax increase. While this could dampen US and world economic activity in the short term, a continuation of the US fiscal/external imbalance risks economic stagnation, or possibly a major recession. On the other hand, the imposition of the necessary fiscal and monetary disciplines, designed to bring national spending more into line with output, should in due course lead the (present) lumbering giant to draw on its undoubted potential to increase productivity as people respond to the lower standard of living that would result from the necessary reduction in spending.

Australia — Parallels and Implications

While Australia has experienced declining terms of trade (in contrast to a small increase in the US), there are some close parallels between developments in the US and Australian economies in recent years. Most importantly, the deterioration in Australia's economic situation and outlook reflects a persistent failure to bring the growth of non-investment spending sufficiently into line with the growth of national income (adjusted for the fall in the terms of trade). The failure is in turn a reflection of Australia's inadequate fiscal and monetary policies over the last five years.

Our recent troubles began in 1982-83 when the then Liberal government, faced with a mild recession and an imminent election, cut income taxes, increased spending, and allowed increased borrowings by public authorities. The net public sector deficit blew out from 3.6 per cent of GDP in 1981-82 to a massive 6.2 per cent.

The Australian public took the bribe, but then elected a Labor government, which proceeded to add to this stimulus in 1983-84 by increasing the net public sector deficit to 6.8 per cent of GDP. Since then, Labor has been able to reduce the deficit slightly each year. But with two further cuts in income taxes and higher interest costs, the current year's estimate remains at a high 4.7 per cent of GDP.

The key effects of this ongoing fiscal stimulus have been to increase the overseas current account deficit from 4 per cent of GDP in 1982-83 to around 6 per cent in the current financial year, and to increase Australia's gross external debt from about 20 per cent to about 40 per cent of GDP. Moreover, as in the US this external borrowing has not generally been used to finance capital investment for the future production of tradeable goods and services. Instead, the bulk of the increase in foreign debt went to finance additional private consumption and government spending.

Also as in the US, monetary policy pursued since 1982 has generally not been sufficiently firm to restrain the demand for credit, and, with deregulated financial institutions competing strongly to extend credit, debt of the non-financial private sector has been increasing at a much faster rate than
national income. In short, Australia has been going down the same path of excessive borrowing as America—only more so and in circumstances which should have called for much greater restraint in our case. In fact, Australia has mortgaged its future to the point where we must now set aside each year close to 3 per cent of GDP to service overseas borrowings that have financed the consumption/government spending spree of the last five years.

A country as wealthy as America can go on for some time borrowing to sustain consumption levels that are higher than output. Smaller countries, such as Australia, that are more exposed to the short-term judgments of international financial markets, should recognise that they have less breathing space in which to adjust policies. The failure to adjust fiscal and monetary policies quickly enough and far enough means that Australia is now not only paying the price in terms of reduced living standards—an inevitable development—but also faces a reduction in future growth potential as high interest rates—now at least 10 per cent higher at the short end, and 6 per cent higher at the long end, than even US rates—and uncertainties about other costs inhibit business investment. Our high interest rates are of course fundamentally a reflection of a decline in the confidence of foreigners and Australians in the ability of the government to sustain the purchasing power of the currency. The inadequate policy response and mounting external debt burden have already produced a number of mini-financial crises—and threaten continuing crises and possibly a major recession.

Australian policy makers need to adjust their forecasting scenarios and the government needs to frame policies on the assumption that, with (at best) a sluggish outlook for economic growth in the US and most other OECD countries, let alone in many debt-ridden developing countries, we cannot expect any near-term improvement in world trade. It would be best, indeed, to plan on a deterioration: if it turned out otherwise there would be nothing lost.

The implications of such a scenario are that we should further restrain national spending by further major reductions in the public sector deficit or, to the extent that this is not achieved, by tightening monetary policy to reduce the growth in borrowings and spending by the non-financial sector. If a major reduction in the public sector deficit cannot be achieved by cutting spending, appropriate revenue measures should be taken: it seems extraordinary, in any event, that Australians should be "given" a major income tax cut at a time when consumption needs to be reduced. Failure to take action along these lines will only serve to delay the creation of circumstances in which a sustainable recovery can occur—and will enhance the risk of a major recession.

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edited by John Nurick
published by AIPP

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Trade Union Privileges

On 6 December last the H.R. Nicholls Society held a Seminar in Melbourne on “Trade Union Reform”—a topic already familiar to Review readers from Peter Costello’s fascinating article “The Trade Union Reform Act of 1987” in the last issue. Among the five papers then presented, one entitled “Trade Unions: Privileges and Power” by Mr. David Russell, QC focussed upon some issues most troubling thoughtful Australians as, today, they regard our trade union movement.

Central to those issues is the growing lawlessness of many trade union bosses, and the spinelessness (in some cases even complicity) of most Australian governments when confronted with that lawlessness. Yet, as Mr. Russell shows, there are equal grounds for concern in the extent to which trade unions have been legally placed in a position of privilege (and hence power) by statutory process. Trade union leaders operating within the shelter of those statutory privileges are not, by definition, operating lawlessly; yet their privileged actions may be just as offensive as if they were.

For example, with our taxation system in turmoil and the Treasurer speaking of the (entirely admirable) need to “level the playing field” as between one set of taxpayers and another, how is it that Section 23 of the Income Tax Assessment Act has continued to escape his attention? That Section provides that:

> “The following income shall be exempt from income tax: . . . .

(f) The income of a trade union and the income of an association of employers or employees registered under any Act or State Act, or under any law enforced in a Territory being part of Australia relating to the settlement of industrial disputes”.

Under this provision, no income of any trade union may be subjected to tax (including tax on capital gains) levied under the Act.

Before considering this further, two preliminary points should be made.

First, if only membership fees were at stake (as was almost certainly so when the provision was first inserted in the law in 1936), there need be no great concern. That kind of “mutuality” principle is found in other areas of the Assessment Act and gives rise to no inherent difficulty so long as the exemption provided under it is not abused.

Secondly, the Section applies not merely to the income of trade unions but also to that of an association of employers registered in the terms indicated. I do not know whether, for example, the Australian Federation of Employers qualifies under this head—even if it is not obvious why it would not—but to the extent that it, or other employers’ associations, do so, similar questions must arise as in the case of trade unions. Again, where only “mutuality” is involved, that need give rise to no difficulty.

For reasons which also derive from trade union privilege, we (and their members) know much less about individual trade unions’ finances than we (and their shareholders) are required by law to be told about the finances of public companies. It is none the less clear that today the income of many trade unions extends well beyond their membership fees. Many of them receive income from investments; capital gains on sales of property; income from business-related activities, such as the “Solo” chain of petrol stations; and so on. The operation of trade-union managed superannuation schemes, now spreading fast, will generate large “commissions” for the trade unions involved, and such commissions will presumably also be tax free.

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Tax-Free Status

The unevenness in the competitive "playing field" which would be generated by continued exploitation by trade unions of their tax-free status, compared with businesses whose income is fully taxable, is one thing. Yet another is the potential scope for tax avoidance by persons other than trade unions who may enter into business dealings with the non-taxable entity which trade unions constitute.

For fairly obvious reasons, many schemes of tax avoidance depend upon an otherwise taxable entity finding a means of gaining indirect access to the tax-free (or lesser taxed) status of some other entity. Companies which were themselves bankrupt, but which still had accumulated past "tax losses" on their books, were of value to companies able to acquire them and use those losses to diminish their own taxation liabilities. State Government utilities, being free of Commonwealth taxation (as agencies of a State), some years ago began entering into highly lucrative arrangements with various financial intermediaries (e.g. banks). Those financial intermediaries became the (titular) owners of such things as power stations, and the investment allowances, for taxation purposes, which went with them; some part of the benefit of these they of course passed on to their partners in these tax avoidance arrangements (through lower interest rates and so on). Eventually, the more blatant of these schemes involving government utilities were stopped, but not before a great deal of revenue had been lost.

I do not know whether any of our businessmen, or our less principled trade union leaders, have yet found means of similarly exploiting the tax-free status of any of our trade unions. But the potential for them to do so exists.

Government Ministers, and particularly the Prime Minister, the Treasurer, the Minister for Finance (Senator Walsh) and the Minister for Trade (Mr. Dawkins), have been indulging in a good deal of oratorical violence over the past year or two about tax avoidance so far as it concerns the business community. Particularly in those circumstances, might it not be wise to look again at the drafting of Section 23 (f) of the Assessment Act? Surely there could be no (legitimate) objection to amending that Section so as clearly to confine the tax exemption, it has every right to demand that it do so only where the beneficiary (in this case, the trade union) is required to present publicly accounts of an appropriate standard. This could be readily achieved by further amending the present Section 23 (f) to confine the exemption not to the income of a trade union registered under "any" Act or State Act relating to the settlement of industrial disputes, but only to such Acts as required those bodies registered under them to produce publicly, and within a specified time, accounts conforming to a (minimum) standard to be laid down in the Assessment Act. Such accounts would also require to be audited, perhaps by the Commonwealth Auditor-General, or by auditors independently appointed by the Commissioner of Taxation.

Now it seems to me that, where the Commonwealth Parliament confers such a major benefit as tax exemption, it has every right to demand that it do so only where the beneficiary (in this case, the trade union) is required to present publicly accounts of an appropriate standard. This could be readily achieved by further amending the present Section 23 (f) to confine the exemption not to the income of a trade union registered under "any" Act or State Act relating to the settlement of industrial disputes, but only to such Acts as required those bodies registered under them to produce publicly, and within a specified time, accounts conforming to a (minimum) standard to be laid down in the Assessment Act. Such accounts would also require to be audited, perhaps by the Commonwealth Auditor-General, or by auditors independently appointed by the Commissioner of Taxation.

Nowhere else in Australia does such a provision exist in our law (although a somewhat similar,
but less widely drawn, provision existed in Queens-
land between 1915 and its repeal in 1974). How-
ever, the Commonwealth Government is currently
contemplating legislation in the coming session of
Parliament which would have much the same
effect by establishing a new Labour Court to “try”
all industrial relation issues. This Court, compris-
ing the President and (legally qualified) Deputy
Presidents of the Commonwealth Conciliation and
Arbitration Commission, was recommended by
the Hancock Committee, whose Chairman, Profes-
sor Hancock, has recently been appointed a Deputy
President of the Commission.

Hancock Committee

The proposed Court, against whose decisions
the Hancock Committee actually proposed there
should be no appeal, will in effect give the trade
unions their own legal playground. Nobody with
the slightest knowledge of the way our industrial
relations system actually works could have any
confidence in the judicial quality of any decisions
emanating from the new Court. It is simply impos-
sible for people who have been brought up within
the Industrial Relations Club, and who finally
comprise its foremost luminaries, to take off their
hats as Deputy Presidents of the Commission and,
merely by seating themselves on the bench of the
new Court, take on a judicial persona totally for-
eign to their normal pattern of behaviour.

Mr. Russell’s paper also compared the duties
and obligations laid upon directors and officers of
companies with those laid upon (or generally, not
laid upon) the officials of trade unions. Here too the
position varies from State to State, and between
States and the Commonwealth. For example, Mr.
Russell points out that legislation enacted in New
South Wales, Tasmania, the Australian Capital
Territory (interestingly) “and possibly South Aus-
tralia” excludes a trade union from the application
of the Companies Code.

As an example of what is at stake, consider the
actions of certain trade union officials in wantonly
embarking upon conduct which contravenes (say)
Sections 45D and 45E (the “secondary boycott”
provisions) of the Trade Practices Act and which
therefore may be liable to attract legal conse-
quences, including damages, at common law. (The
by now famous Mudginberri Abattoirs Case is a
perfect example.)

It would be entirely wrong for the directors of a
company to initiate actions which were clearly
likely to result in the company becoming liable for
considerable damages at civil law, and particularly
so where there was no commercial gain to be had
even should the actions themselves (legal conse-
quences apart) prove successful. Yet actions of this
kind are repeatedly taken by trade union officials,
no doubt in the expectation that employers, gen-
erally speaking, will yield to threats against com-
bating such actions in the real courts of the land.

Trade unions also enjoy the particular privi-
lege of protection from competition. As Peter Cos-
tello pointed out in his article referred to earlier,
workers in any enterprise cannot generally asso-
ciate to form a new union. However dissatisfied
with (or even physically frightened of) their exist-
ing trade union leaders they may be, they are
unable simply to walk out and form a new union of
their own. Section 142 of the Commonwealth Con-
ciliation and Arbitration Act requires the Registrar,
generally speaking, to deny registration if an organ-
isation has already been registered to which the
workers in question “might conveniently belong”.
Similar provisions are to be found in the relevant
laws of each of the States. Union members are thus,
to all intents and purposes, bond slaves. This is of
course consistent with the “pass laws” (“no ticket,
no start”) to which many of them are also subject.

Naturally, our trade union leaders will defend
all these (and other) privileges bestowed upon their
organisations. Indeed, the ACTU has recently set
in train plans for spending a large sum of union
funds in refurbishing the somewhat grubby public
image of trade unions in our society. It is fortunate
therefore that all trade unions’ publications are
exempt from Sales Tax.
Arbitration and Human Rights
The Case of Mr. & Mrs. Gibbins
Barrie Purvis

When the interests of the powerful are in conflict with the civil liberties of individual citizens, the arbitration system often tends to favour the powerful. Barrie Purvis cites the case of Jim and Marlene Gibbins—who conducted a livestock carrying business.

In August 1986, a convention was held in Melbourne to discuss the subject “How Can Employers More Effectively Cope With Unions?”

Responding to the question in a paper entitled “Using the Industrial Relations System” a Deputy President of the Australian Conciliation & Arbitration Commission, Mr. Justice S. G. Alley said: “I rather deplore the jingoistic union bashing, approach which has become fashionable lately among employer circles and which to some degree is reflected in the theme of this convention. I shall endeavour to remain neutral.”

After canvassing the history of sanctions in the system directed at breaches of awards the judge concluded by exhorting employers to deal with their problems through employer organisations and stay within the institutional framework. “The system of conciliation and arbitration is well entrenched so as to have become part of our heritage,” he said. “Don’t try and overturn it, but learn to use it properly and live within it, thereby you will more effectively cope with the unions.”

The Gibbins case affords an opportunity to test the validity of this exhortation. The essential facts are that the Australasian Meat Industry Employees’ Union blacklisted certain carriers of livestock because they had crossed picket lines in order to deliver live sheep to ships for export. The blacklisted drivers and trucks were prevented from delivering livestock either for farmers or Borthwicks to the latter’s abattoir and this caused inconvenience and loss to the company, to 30 carriers and not least to 22 primary producers. Borthwicks took action against the Union under the Trade Practices Act and the dispute was ultimately "settled", if that is the right word, in the Arbitration Commission under the chairmanship of a Deputy President.

The Gibbinses were the absent victims of this settlement: their right to carry on their business was "traded away" to ensure industrial peace. The relevant terms of the settlement between the meat company and the union included the following statement:

"It is accepted that for many and varied reasons put by the union and for valid commercial reasons, the company feels it necessary, if things are to become normal at its Brooklyn and Portland works, that for industrial relations reasons those people known to the company not be invited or engaged to come on to the works, nor will the company or any of its agents require members of the union to attend those known persons."

Jim and Marlene Gibbins in common with all the other carriers neither knew of, nor were able to be present at, the closed conciliation proceedings in the Arbitration Commission which determined their fate. It should be noted that the Conciliation and Arbitration Act explicitly requires that such persons be given notice of such proceedings to enable them to become parties to the proceedings and thereby protect their interests. No such notice was ever served on them.

Yet the Deputy President, who, under the Act, is responsible for giving the direction to notify all "affected persons", in the confidential written statement which recorded the settlement said:

"I should note that the drivers who are involved in this matter have neither appeared

Barrie Purvis is Director of the Australian Wool Selling Brokers Employers’ Federation.
nor shown any interest in the proceedings before me. However, I would hope that persons who may not benefit by this resolution and desire to do so would be able to put themselves into a position where their differences were resolved with the employees at Portland consistent with the resolution of the dispute and that this should happen as soon as practical”.

The official file containing the agreement also includes a statement by the Deputy President in which he says: “I am prepared to say that what has been reported to me as a resolution of the dispute could only be regarded as proper in the circumstances and I recommend it.”

Illegal Agreement

In June 1986 the Federal Court declared illegal the agreement to blacklist the Gibbins partnership and other drivers affected. In entering judgement with costs for the Gibbinses, Mr. Justice Smithers in the Federal Court said the Agreement between the union and the company:

“represented a complete surrender to the Union demand that because certain carriers carried on their lawful occupation by carrying live sheep to the ships their occupation as carriers to abattoirs should be destroyed. That surrender was made at the expense of the absent persons affected thereby and one can only wonder how that aspect of the matter could be proper. The reference to the lack of interest shown by ‘others who are involved in this matter’ failed to recognise the fact that those others were in complete ignorance of the proceedings. The final sentence is obscure and appears to be directed to persons who will never be informed of it. The only meaning to be attributed to it is that it is a declaration that if carriers desire to do business with Borthwicks they must cease to carry stock to the ships in the Middle Eastern trade. The reference to persons subject to this policy, as persons ‘who may not benefit’ from the proposed resolution of the dispute, is a naive and ingenuous description of persons who are to suffer in their livelihood by being directly excluded from the ordinary exercise of one aspect of their lawful occupation’.

In describing how the Arbitration Commission had resolved the problem created by the union’s retaliatory action against innocent live-stock carriers going about their lawful business, Mr. Justice Smithers recounts how

“Borthwicks also agreed that persons other than those who had involved themselves in the process of conciliation should ‘respect the need not to cause further provocation’ and therefore, Borthwicks ‘accepted the fact’ that stock carriers who did not recognise the Union’s picket lines over live sheep were not accepting the spirit of conciliation and would see those persons as an antagonistic factor to a continuing resolution of the industrial relations problem and would not invite or engage such people to come onto the works or require the members of the Union to be involved with such people’.

In its defence Borthwicks argued that it had no choice and acted only under duress.

Mr. Justice Smithers in the Federal Court said the Agreement between the union and the company: “represented a complete surrender to the Union demand that because certain carriers carried on their lawful occupation by carrying live sheep to the ships their occupation as carriers to abattoirs should be destroyed”.

Recognising that the company faced acting in breach of the Trade Practices Act, or possible industrial disruption if it pursued its remedies under S.45D of that Act, Mr. Justice Smithers said:

“experience of the operation of this provision would indicate that such risk is much less than is sometimes thought. Indeed compliance with orders made under S.45D has been quite marked. In any event the Court cannot proceed upon the basis that the laws are made not to be enforced or speak in vain."

From the community’s point of view the use made of the system of conciliation and arbitration in this case can never be the best or even an acceptable way of more effectively coping with unions. The Arbitration Commission failed to protect Jim and Marlene Gibbins. Only in the courts of law did they achieve justice.

Jim Gibbins has survived and is building up his business again. “All we’ve wanted from the start,” he says, “was to see justice done and have those bans lifted for the sake of our family and the other drivers”.

19
Why Traditional Education is Still Relevant

Susan Moore and Leonie Kramer

It is increasingly fashionable among educationalists to criticise the traditional curriculum as being too academic and irrelevant to the social problems encountered by young people. Dr Moore and Professor Kramer challenge the narrow, utilitarian notion of relevance that underlies this view.

In 1852, writing about the nature and purpose of universities, John Henry Newman echoed Aristotle in describing two distinct methods of education:

"...the end of (one method) is to be philosophical, of the other to be mechanical; the one rises towards general ideas, the other is exhausted upon what is particular and external. Let me not be thought to deny the necessity, or to decry the benefit, of such attention to what is particular and practical, as belongs to the useful and mechanical arts; life could not go on without them, we owe our daily welfare to them; their exercise is the duty of the many, and we owe to the many a debt of gratitude for fulfilling that duty. I only say that Knowledge, in proportion as it tends more and more to be particular, ceases to be Knowledge".

Although the need to distinguish, as Newman does, between social utility and educational usefulness has been recognised for 2,000 years, influential Australian educators still deny that such a need exists. The practical method of education rejected by Newman for its short-sighted reliance on the particular continues to be championed by educational spokesmen who seem never to have encountered a superior intellect at work. And the philosophical method of education which he considered the only appropriate means of ensuring the transmission of knowledge is regularly dismissed by these same forces as irrelevant to the proper business of schooling.

As if the great philosophers of education, starting with Plato; had never lived, our more embarrassing educationalists discuss and direct teaching and learning in terms which suggest that the life of the mind is no life at all. On the principle that pupils at every level must be taught to cope with the practical realities of contemporary life, and especially the dark realities imposed by rapid technological change, such educators effectively banish history, literature, mathematics, science, music and art from schools, except in their most cursory and superficial forms. In their place they propose concoctions such as games-play, skills of reasoning, problem solving, skills of literacy/numeracy research, ecological, socio-cultural, and value systems studies, arts-crafts, government and commerce, and personal competence/interest studies.

At both colleges and universities persons of this stamp are now far more numerous than is conscionable, and their influence upon the content of schooling is pervasive. Although they have not yet succeeded in doing away with traditional subject areas altogether, they have managed to shape the curriculum for future teachers in ways which their more reflective colleagues consider shamefully inadequate. As part of a sweeping revolt against the liberal arts, they have watered down tertiary courses in English, History, Science, Geography, and Mathematics. For they have mistakenly and conveniently blamed the major disciplines for the classroom failures of legions of teachers. Alarmed by such an abnegation of responsibility, an Australian publisher has remarked that now the onus for creating an identifiable core of learning is on the publishers of classroom materials.

In at least one large tertiary institution whose course descriptions are readily accessible to the public, prospective Infants and Primary teachers are required in Years 1-3 to take only a single semester course in Reading and in Writing (that's

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WHY TRADITIONAL EDUCATION IS STILL RELEVANT

all!), two semester courses in Science and in Social Studies (not History), and three semester courses in Mathematics. Yet they must complete ten semester courses in Education, studying subjects like Classroom Skills, Child Studies, Socio-Cultural Contexts of Education, Curriculum Design, and Contemporary Issues. Such gaps in their General Education as might arise from this programme are filled by a one-semester workshop elective in, for instance, Multicultural Education, Non-Sexist Education, Non-Government Schooling, Australia's Heritage, Sports Administration, Video Production, Computing or Health, and by a single curriculum elective in a traditional subject area. For B Ed candidates the programme imbalance for the rest of the course is even more pronounced.

Privately, school principals who work with the products of such training often complain about their woefully inadequate grasp of such basic matters as how to write a standard English sentence, their equally woeful general knowledge, and their confused classroom management. But because school heads do not know who or what is responsible for this situation, they are in no position to alter it significantly. Only rarely do informed insiders speak to them, freely about the attitudes towards reading and “high culture”—the hidden curriculum—of the stolid pragmatists who, with the best intentions, lead tertiary students and their students into a stultifying narrowness.

It is “with infinite caution”, Edmund Burke said almost 200 years ago, “that any man ought to venture upon pulling down an edifice which has answered in any tolerable degree for ages the common purposes of society, or on building it up again without having models and patterns of approved utility before his eye”. Unfortunately, our more vocal critics of all forms of traditional schooling show no sign of having read Reflections on the Revolution in France or any other celebrated discussion on institutions with an impressive history. Indeed, one of the most influential critics of this ilk in New South Wales—Shirley Smith, an Associate Professor in the Education Department at the University of New South Wales, and the Chairman of the New South Wales Finance and Planning Committee responsible to the Schools Commission—disposes of 2,000 years of traditional education in the West in six pages of a 256 page book.

In Schooling: More or Less, after asserting that traditional disciplines like Maths, English, Science, Social Science, and Languages are interesting chiefly to academics and high school teachers, Smith calls these subjects “irrelevant to social life and problems” and “far too circumscribed to cater for the varied individual interests and abilities... of today”. She then asserts that traditional methods of teaching the major disciplines have always been equally inadequate, since they require only the memorisation and regurgitation of “the ideas of the ‘great thinkers’”. Thinking, reasoning, questioning, showing curiosity and creativity, and demonstrating independence, she announces, play no part in intellectual achievement in the traditional curriculum. What is learned by most students “is a set of soon-forgotten, apparently senseless, lists of facts”.

If Smith were alone in generalising about the nature, methods and effects of traditional study in such a shocking way, it would be easy to return her book to the library shelf with gestures of disbelief. But because she is far from alone, either in inveighing against all traditional subject-matter used by schools or in asserting that all traditional educational methodology is arcane, unintelligent and destructive, her attitudes must be taken seriously. People too numerous to count, at every level of the teaching profession, share both Smith’s prejudices about traditional activities of mind and her extraordinary ignorance of history—including, of course, the history of education itself.

To such educationalists, periods in the life of the West marked by unusual cultural and intellec-
tual achievement within the broad field of education—for instance, the fifth century in ancient Greece, the twelfth century in Western Europe, the Renaissance and its aftermath in England and the Continent—might just as well have existed in a space fantasy. Oblivious to the warning, purveyed by the distinguished American sociologist Edward Shils, that those who reject tradition know “continuously receding pleasures”, they maintain that only by concentrating on the present will the imaginative needs of children be met. Past, present and future are not inextricably related, they insist: creativity asserts itself most fully when the attention of pupils and teachers is fixed on what is going on around them.

Yet our greatest modern English Poet, T.S. Eliot, in one of his most celebrated utterances, reminds us that no creative person has his complete meaning alone: “...you must set him, for contrast and comparison, among the dead.” “We dwell with satisfaction,” Eliot says, on a poet’s “difference from his predecessors”. Whereas if we approach him without this prejudice, “we shall often find that not only the best, but the most individual parts of his work may be those in which the dead poets, his ancestors, assert their immortality most vigorously”.

Eliot’s statement has broad applicability. In every traditional field of inquiry knowledge advances because our ancestors lead us along paths which they themselves could not take. “Copernicus and Kepler told Newton where to find discoveries unthinkable to themselves”, the noted physical chemist and philosopher, Michael Polanyi, has said. To act as if the reflections of the great thinkers of the past are of interest only to academics or to secondary teachers, and to fail to see that the excitement generated by the activities of outstanding scientists, philosophers, mathematicians, poets, musicians, artists, and historians can be transmitted to the greater part of an entire culture, is to condemn that culture to a parochialism terrible to contemplate.

Long before Newman wrote his defence of learning for its own sake, communities of cultivated persons agreed—as they still do—that the study of traditional disciplines has a useful, though not a utilitarian, bearing on society. For the kind of knowledge acquired by this route, and by no other, is not a mere “accidental advantage...which may be got up from a book, and easily forgotten again, which we can command or communicate at our pleasure, which we can borrow for the occasion, carry about in our hand, and take into the market”.

It is—in Newman’s words—“an acquired illumination”, a “habit”, a “personal possession”, and “an inward endowment” which invests what it sees with ideas. Its signature is a “largeness of mind” expressed by “self-possession” and “sound judgement”.

One of the great advantages of knowledge gained through study of the liberal arts, Newman says, is that it imparts to its bearers a “clear, calm, accurate vision and comprehension of all things, as far as the finite mind can embrace them, each in its place, and with its own characteristics upon it”. Far from being acquired through rote memorisation of the ideas or slogans of past sages, this knowledge is assimilated slowly, over a long period, through rigorous wondering, reasoning, and testing. Because
its means are often tacit and unspecified, as well as explicit and particular, the discoveries they issue in have scope and depth, and effects which sometimes exceed the limits once considered possible.

Paradoxically, because its focus is not "practical", the philosophical method of education is actually more useful than its rival method can be. Without minimizing the difficulty native to it ("On a huge hill, Cragged and steep, Truth stands"), it fosters personal growth through the strength of its commitment to learning. It inculcates habits of mind which bring power and grace to those who are active in all walks of life. It enables people who have mastered its essential forms to be reliable guides for others. And it builds on the recognition, beautifully articulated by Polanyi, that "all thought is incarnate"; it lives by the body and by the favour of society. But it is not thought unless it strives for truth, a striving which leaves it free to act on its own responsibility, with universal intent.

That mind cannot responsibly be separated from body, from the personal interest, impulses, and activities of the learner, and from the consequences of its own activity, is not an idea acceptable to everybody. Those who accept it are convinced that if more people understood the connections between mind-body, the pursuit of truth, universal intent, and communal responsibility, our daily lives would have a different cast. Utilitarians who tried to tell us that the formal study of Education is equivalent in value to the study of all the other major Arts and Sciences, combined, would be forced to re-train. Teachers unfamiliar with the intense emotion commonly felt by intelligent readers experiencing Vergil or Swift or Mill for the first time would not be appointed to influential educational planning bodies—especially, not to syllabus committees. And the imaginative, moral, and spiritual dimensions of human experience undreamt of by the inventors of Values Systems Studies would be considered the rightful possession of cultivated persons of every age.

Ironically, although they often have a lot to say about "conceptualising" and "hypothesising", the practical educationalists who discard or undervalue traditional disciplines never explain how, if history and literature enjoyed even less favour than they do now, imaginative, moral, and spiritual issues vital to the welfare of humankind could be systematically and coherently treated in schools. They also say little about excellence, and its connection with the best that has been thought and said in the world. And to the idea that knowledge is its own reward, their usual response is cynical disdain.

In 1975, commenting on the dangers of antintellectualism of this kind in education, Iris Murdoch pointed out that when we admire a great singer, footballer, actor or violinist we don't feel that we're "demeaning" ourselves. We're not made miserable and envious "when we delight in talents which we have not got; we are grateful because our world has been enlarged and enriched by a vision of excellence which we can appreciate". "Why", she then wanted to know, "should intellectual merit alone be denied fostering and respect?" Why indeed.

In Hard Times - a novel greatly loved by college and university students, and by their teachers—Dickens' sharpest satire is directed at persons who pride themselves on their practicality but are ineffectual, ignorant, incompetent, or brutal in situations requiring practical skill. The only character in the book who is able to exercise sound judgement at critical junctures fails to make use of the utilitarian ethic she has been schooled in, for it is inadequate to her needs. Instead, acting from love and applying her native imagination and reason to three tasks which have proved too difficult for her elders to handle, she helps to keep a young man out of gaol, persuades a cavalier MP trifling with his emotionally wrecked sister Louisa to leave town, and heals Louisa.

"What is the wise man about?" Sidney Hook asks in Education and the Taming of Power. His answer to this question is that the wise man has knowledge of "the nature and career of human values in experience and of the best means of achieving them". Of course Hook speaks in a language appropriate to his profession, and when he goes on to say that wisdom is "knowledge not only of the means necessary to attain ends but of the ends most appropriately chosen in the problematic situations that require choices between conflicting ends", we know that we are in the company, not of a novelist, but of a political philosopher. Still, for all their differences, it is clear that Hook shares Dickens' view—and Newman's and Aristotle's—that the quality of a person's learning is reflected in and measured by his deeds. Contrary to popular belief, distinguished thinkers in every branch of learning, ancient and modern, agree about a fundamental practical principle: By their fruits ye shall know them.
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ISBN 0 949769 28 2 211pp. $14.95

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The Sins of the Fathers

In the Bible the principle of “visiting the sins of the fathers upon the children unto the third and fourth generations” was reserved for the most serious of misdeeds, such as idolatry.

Today we appear to have adopted the same principle for one of the most serious of economic sins—spending beyond our means. Much of the overspending by governments in recent years has been financed by borrowing, and a large part of this burden will fall on future generations.

Strangely enough, with the national debt at a record level, around $110 billion, we have no official statistics of its size. The following are the best estimates available:

Eliminating the Government “Overhang”

The editorial in this issue of Review emphasises the need to remove the government “overhang” which currently is estimated to stand somewhere between $20 and $25 billion and argues for the urgent need to reduce the government share of GDP from the current level of around 43 per cent to no more than 33-35 per cent.

How quickly can this be done?

If the Commonwealth Government policy of linking expenditure growth to GDP growth were to be followed by other governments and public authorities the overhang would always remain. Clearly a much tougher expenditure limitation policy must be followed.

If the Federal Opposition’s policy of zero growth in outlays were to be standard for all governments and their authorities and if the economy continued to grow at around 3 per cent per annum it would take until 1995/96 before the government sector was reduced to 33 per cent of GDP.

Given the state of the Australian economy, nine years may be too long to wait for the overhang to be eliminated. A much more severe expenditure restraint policy is needed.

The graph details the paths to eliminating the
overhang with annual cuts in expenditure of 1 per cent, 2 per cent and 3 per cent. It appears from the graph that if the overhang is to be eliminated in a reasonable time, then an annual cut of 2 per cent or perhaps even 3 per cent is the only satisfactory option open to the Government.

Even with a 3 per cent annual cut in expenditure nearly half the "overhang" is eliminated by the growth of the economy.

Thus the Commonwealth Government will need, over the next 5 years, to cut budget outlays by around $6 billion. This hardly seems a huge sum when new programmes introduced by the Hawke Government in its first 3 budgets lifted expenditure by over $5 billion.

<table>
<thead>
<tr>
<th>Dependants On Government</th>
<th>1985*</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Pensioners</td>
<td>1355.3</td>
<td>1348.8</td>
</tr>
<tr>
<td>Invalid Pensioners</td>
<td>335.0</td>
<td>357.0</td>
</tr>
<tr>
<td>Widows &amp; Supporting Parents</td>
<td>327.9</td>
<td>332.3</td>
</tr>
<tr>
<td>Service Pensioners</td>
<td>228.9</td>
<td>239.1</td>
</tr>
<tr>
<td>Unemployment Benefit Recipients</td>
<td>561.4</td>
<td>569.7</td>
</tr>
<tr>
<td>Sickness &amp; Special Benefit Recipients</td>
<td>81.9</td>
<td>83.9</td>
</tr>
<tr>
<td>Public Sector Superannuants (est)</td>
<td>150.0</td>
<td>150.0</td>
</tr>
<tr>
<td>Student Allowance Recipients</td>
<td>189.3</td>
<td>240.4</td>
</tr>
<tr>
<td>Others</td>
<td>14.2</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Public sector employees 1718.6 1786.2
Total dependent on Government 4962.5 5121.7
Private sector employees 4951.5 5186.5

No. of persons in receipt of
Government income per 100 private sector employees 100 99

* These figures are not directly comparable with those published previously for 1985 because, although the totals are similar, the classifications have been extensively revised.

In 1986 the increase in government dependency has slowed. This was achieved through a slight fall in the number of aged pensioners (mainly because of the Assets Test) and a large increase in private employment.

These figures probably underestimate dependency on the government for income, because many employees who work in the community services "industry" are often paid out of the public purse even though they work for non-government organisations. This is particularly so in the health, education and welfare areas of community services where employers are often dependent on government grants for their existence.

Many of the 60,000 people to take up employment in community services last year ought to be treated as dependent on government for their income.

Australian Families Are Worse Off

In the past the traditional family has been regarded as the bedrock institution of Australian society.

But today these families are receiving less assistance from government than ten years ago. For
example, a single-income family with four children received in 1985/86 (in real terms) about four-fifths the value of family allowance and spouse rebate it received ten years ago.

Government financial assistance to Australian families is mainly of two types.
- Family allowance: non-taxable payment which is not subject to an income or asset test for families with children under 16 years of age. It is estimated to provide families with $1,365 million in 1986/87.
- Tax rebates: dependent spouse rebate for taxpayers with dependent spouse and children. This could be worth $1,100 million to families in 1986/87.

The change in the value of these benefits to some individual families is detailed below.

### Real value of family allowances and spouse rebate 1976/77 to 1985/86

<table>
<thead>
<tr>
<th>Year</th>
<th>Single income married couple with four children</th>
<th>Two income married couple with four children</th>
<th>Single income married couple with one child</th>
<th>Two income married couple with one child</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976/77</td>
<td>$3000</td>
<td>$2500</td>
<td>$1500</td>
<td>$500</td>
</tr>
<tr>
<td>1979/80</td>
<td>$2500</td>
<td>$2000</td>
<td>$1000</td>
<td>$500</td>
</tr>
<tr>
<td>1982/83</td>
<td>$2000</td>
<td>$1500</td>
<td>$500</td>
<td>$500</td>
</tr>
<tr>
<td>1985/86</td>
<td>$1500</td>
<td>$1000</td>
<td>$500</td>
<td>$500</td>
</tr>
</tbody>
</table>

### Keeping An Eye on International Bureaucrats

The allocation in the 1986/87 Commonwealth budget for “visits abroad by Ministers and their personal staff” is 25 per cent higher than expenditure in the previous year. This is more than four times the average increase in total budget outlays in 1986/87.

Why is such an increase necessary?

One possible explanation might be that overseas travel must be paid for in a foreign currency, usually US dollars, and the 25 per cent increase in outlays reflects the expected fall in the value of the Australian dollar in 1986/87 compared to 1985/86. However a close examination of the figures suggests that the falling Australian dollar can hardly account for such an increase.

It appears therefore that the increased budget allocation reflects a real increase in overseas travel by Ministers and their staffs.

Part of the explanation might lie in the substantial increases in funds allocated to international bureaucracies.

Particular generosity is shown to United Nations organisations which have been favoured with an 18 per cent increase in appropriation out of Australian taxpayers’ hard-earned money. This is two and a half times the average increase for all other Government activities. There is a massive 125 per cent increase in the allocation to the most discredited of all UN organisations, UNESCO.

With such large increases in Australian money to be spent overseas, Government Ministers and those who serve them obviously feel the need for increased travel overseas to examine more closely how the international bureaucrats are spending Australian taxpayers’ money.
Around the States

Les McCarrey

Governments Never Learn

Recent developments in three States which coincided with a re-run of the Eureka Stockade television production bring to mind the reasons for that historic confrontation and the shadow it casts for governments today.

Eureka has become part of the folklore of the revolutionary Left, painted as it often is as a rebellion of the workers (miners) against oppression by the ruling classes. In fact the miners were entrepreneurs, small businessmen risking their capital, such as it was, in the hope of profits from their claims.

In common with kindred spirits today, they worked hard and long with small return in the expectation of future profit. Their capacity to pay high taxes to support the activities of a rapacious government was limited.

The Victorian Government was spending beyond its means and resorted to heavy taxation on these new and largely unrepresented entrepreneurs who were viewed with some distaste by the Melbourne establishment for their roughness and varied ethnic background. But the lesson that governments should mark is that the taxpayer rebellion was ultimately triggered by the draconian measures resorted to in an effort to stamp out evasion, itself a direct result of the punitive fee charged for a licence to mine—the infamous licence fee system which preceded the Miner's Right.

When the burden of taxation falls too heavily on one section of the community and governments prostitute principles of fairness and reasonableness to exact their otherwise lawful revenues, rebellion of one form or another is inevitable.

Over the years State Governments, denied access to more rational avenues of taxation, have escalated stamp duties payable on the registration of commercial documents to levels where quite large sums are payable in duty even on the sale of a house or a car or registration of a mortgage. On major transactions, stamp duty reaches such absurd levels that tortuous methods of avoidance frequently have to be devised if the transaction is to take place at all.

Therefore instead of expressing virulent outrage when the Bond Corporation took steps to avoid paying over $8 million in stamp duty on a single transaction, the New South Wales Minister for Finance might have pondered on the absurdity of a duty of that magnitude. After all, when stamp duty on the registration of a document reaches that degree of rapacity it must be expected that the transaction will be conducted in such a way that the duty is substantially reduced.

The companies concerned apparently took the view that, if it were to cost some $8 million to have the document evidencing the sale stamped, they

Les McCarrey is Director of the IPA States' Policy Unit in Perth.
would effect the sale by avoiding documentation and relying on oral agreements, payment of a deposit and company minutes. This is not a new development because as the severity of stamp duties has increased over the years, larger transactions have increasingly been moved offshore or effected by avoiding forms of documentation subject to duty. If the tax on the Bond transaction had been of a reasonable magnitude, then the action of the corporation would be more difficult to condone. Because the tax was excessive, the New South Wales Government ended up with no revenue. For that it has itself to thank, in part.

It is a feature of all forms of taxation that when the tax liability exceeds by a significant margin, legal and other costs and the commercial risks involved in devising means to circumvent the tax, avoidance schemes are certain to be developed. Not only does this tend to put a practical ceiling on the tax base, it unfairly biases the incidence of the tax against small- and medium-sized taxpayers who have less access to the knowledge of avoidance mechanisms and for whom the costs involved may not warrant the effort. Finance Ministers and tax officials are, or should be, well aware of these commercial facts of life and should bear the consequences in mind when tempted to exploit any tax beyond a practicable level.

As the Commission of Inquiry appointed by Governor Hotham to inquire into the Eureka miners' grievances stated: “Laws must not be based solely on abstract principle or right, but be adapted also to human nature.”

But Mr. Debus, NSW Minister for Finance, was intemperate enough to call the defensive action by Bond Corporation “a deliberate attack by a few large and wealthy companies on each of us in our society”.

Such responses are merely silly and out of touch with reality. Far more serious are the steps to be taken by the New South Wales Government in a further escalation of the war. New South Wales stamp duty legislation is now to go beyond the moral boundary of simply specifying the duty payable on the stamping of documents of various kinds. Henceforth, residents of that State are to be required by law to order their affairs so that a document is created when property is conveyed.

So inured are we to legal coercion by governments that this may seem just one more closure of a loophole in the continuing battle between the tax-gatherer and the cunning evader of fiscal obligations. But the principle at stake is a fundamental one.

The right of governments to levy taxes on specified incomes and transactions and require payment by law is not open to challenge. What must be challenged at every point is any assumed right of governments to compel us to so order our affairs that we become liable for taxation where we otherwise would not.

The ease with which Mr. Debus discards that moral dimension is disturbing enough. A further proposal to make it an offence for anyone to even advise on means of avoiding stamp duty and to make professional advisors personally liable is a frightening example of the New South Wales Government’s totalitarian approach to issues of this kind.

It is difficult to believe that such legislation could be contemplated in a free society. It should be fought tooth and claw by the Australian business community because once enshrined in the New South Wales statute, it will be quickly picked up by other States.

Coming on top of proposed legislation to limit the right of employers in New South Wales to take civil action for damages against unions indulging in lawless behaviour and proposals to set aside the principle of limited liability to make company directors personally liable for severance payments to workers, the anti-business attitude of the New South Wales Government is clearly bordering on vindictiveness.

It is not to be expected that the New South Wales business community will take up arms and close ranks behind a stockade as did their forebears of Eureka. Today rebellion takes a different and far more damaging form. Sadly we can expect to see more companies looking to move their business base offshore to countries where taxation policies are less exorbitant and their basic rights more respected.

The Tobacco War

In the escalating war to ensure that exorbitant State tobacco taxes are not eroded by citizens exercising their constitutional right to buy tobacco imported from low-tax States, the Governments of South Australia and Western Australia have taken curiously different, but equally Orwellian steps to stamp out unlicensed retailers.

State tobacco taxes are “Claytons” taxes in that they are levied as licences for the right to trade in cigarettes and tobacco. The licence fee is then passed on to the consumer as an addition of up to 52 cents to the price of a packet of cigarettes. The
States cannot impose a retail sales tax directly on the product because that is deemed to be an excise duty which is reserved to the Commonwealth by the Australian Constitution.

Since most States, led by Western Australia, savagely increased tobacco licence fees under the pious pretext that they didn't really want the money, their only purpose being to save people from an unhealthy habit, unlicensed retailers selling tobacco imported from Queensland, where there is no licence fee, have become a real threat to revenue.

State Governments cannot legislate to prevent such sales without transgressing against freedom of interstate trade under Section 92 of the Constitution so they endeavour to drive them into the licence net with inventive legislation and harsh penalties for non-compliance.

Notwithstanding a recent decision by the Western Australian Supreme Court judgement which suggests that a company buying tobacco in Queensland can legally sell it in Western Australia without paying the 35 per cent levy, Mr. Burke apparently has faith in his Government's ability to make the licensing requirements of the Act stick. The penalty for trading in tobacco products contrary to the licensing requirements is to be doubled to $40,000. To get around the problem of unlicensed companies of little net worth, the principle of limited liability is to be set aside and the principals behind the company made liable.

Taxation officers are to be given the power to enter and search premises and to seize tobacco, accounts and other documents.

Mr. Bannon seems less confident that penalties more appropriate for dealing in hard drugs will force importers of tobacco from Queensland to knuckle under to the licensing requirements of the South Australian Act. He has given a new twist to the bootleg tobacco saga by requiring smokers to take out an annual licence to consume tobacco for a fee of $160.

The cunning touch is that smokers will be exempted from holding a licence if they buy from a licensed retailer. However, if they wish to buy illicit tobacco from an unlicensed shop they will presumably have to produce their licence to a hovering inspector (more have been appointed to police the system) and fill out a form.

If the purchaser does not hold a licence they must fill out another form admitting liability to pay a $200 fine if they consume the tobacco. The retailer must ensure that one or other form is signed or face a $20,000 fine.

If notices to pay this $200 civil penalty are ignored the purchaser can be fined up to $10,000.

A final twist worthy of Animal Farm reverses the onus of proof by deeming the purchaser of the tobacco to have consumed it unless that person can prove otherwise.

Having come up hard against one of the few freedoms conferred on Australians by the Constitution, Mr. Bannon is apparently trying to make it too uncomfortable for South Australians to take advantage of their constitutional right.

One can only admire his ingenuity but the mind boggles at the possibilities this new technique opens up. Why bother about expensive road safety campaigns and random breath-testing? It would be simpler to increase the driver's licence fee to $200 a year but provide that one is not required to have a driver's licence if one abstains from alcohol and never drives faster than 70kph. If that doesn't work they could try $500 and then $1000.

It was only a matter of time before someone thought of it.
Ideas Which Count

Ideas can enhance freedom and encourage enterprise. Or they can suppress freedom and cost the earth. The dominant ideas in public policy in the last two decades have promoted greater economic regulation, higher taxes and increased union power. They have resulted in enormous costs for Australian taxpayers.

The IPA, a leading Australian think-tank, critically analyses the costs and benefits of public policy. It promotes, among other things, a reduction of the tax burden, a cut in government waste and inefficiency, an increase in educational standards and a decrease in union power.

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Unfit for Public Service  The Federal Government is attempting to curb rorts in the $345 million payout for public service invalid pensions. "Cases include a senior manager in his mid 40s on a salary of about $54,000 who was declared unfit for work because of a 'mental condition', who subsequently acquired and ran two magazines in succession and now works as a tax accountant . . .

Another example concerns a clerk on a salary of about $27,000 who was retired out of the public service at the age of 34 because of an 'anxiety state'. He then purchased a small goods delivery business which he subsequently sold, and then bought a newsagency. Despite this, he was regarded by a medical officer as 'not fit to resume Commonwealth employment'. (Financial Review)

Beating the System  In the last 2 years Sue Edmonds has received around $17,800 from the Australian Council, $6,000 of it to make musical steel drums. From mid-1985 to mid-1986 she was Musician in Residence attached to the South Coast Labor Council. As a divorced mother of two, Sue believes the grants were more than justified:

"The single mother's culture should not be neglected. She should be given an opportunity to learn to play an instrument. to participate in this type of activity. She cannot afford to visit the Opera House, to buy an instrument or take music lessons. We need music and drama centres where people can meet and learn skills'.

Sue has worked as a busker in South America, a freelance ABC radio reporter in Tasmania and for the Education Department as a sexism consultant. She describes her songs as a commentary on today's society. An album called 'Beat Your Breasts' by the Ovarian Sisters (of which she was a member) sold all 1,500 copies made. (Sunday Telegraph)

A Soviet Marina?  Cam Ranh Bay is the Soviet Union's largest naval base outside the Warsaw Pact in a country—Vietnam—that receives Soviet military aid at the rate of $3.6 million a day as well as the services of currently over 2,500 military advisors. The Soviet Union's presence at Cam Ranh Bay has alarmed many of those concerned at the expansion of Soviet power in the Pacific region. But it shouldn't have, according to Owen Wilkes writing in a journal of the peace movement. Indeed, according to Wilkes, Cam Ranh Bay is not a military base at all. "Apart from warships", he writes, "it looks like a yacht marina more than a naval base". So why are the warships there? "The short answer", Wilkes surmises, "seems to be that they are saving fuel. The Soviet navy always seems to be having to scrimp on fuel". (Peace Magazine Australia)

Hurting the One You Love  In 1985 the Australian Council of Churches and the Catholic Commission for Justice and Peace set up a National Inquiry into Peace and Justice in Australia as their "special contribution" to the International Year of Peace. Submissions to the Inquiry came from groups as diverse as MOVE (Men Overcoming Violent Emotions), Clergy for Peace, Women for Survival and the Nuclear Free Australia Party. The findings of the Inquiry, recently published, reflect this full range of opinion. The report found, contrary to the lament of economists and politicians that we are dizzingly lacking in competitiveness, the existence of "rampant competitiveness" in Australia, something which, of course, the report roundly condemns.

Christians "declare peace on the world" it blazons—on all, that is, except America—unless, of course, you believe the claim that the following sentiments are not "an act of enmity, but actually an act of love toward the whole American people":

"Most Christians who contributed to the Inquiry", says the report, "saw themselves in a situation where their country actively encourages the US lust for power, and that nation's readiness to destroy whole populations in order to maintain their present situation of privilege. In such a situation the Church, they said, has no option but to challenge Australian acquiescence to US global strategy, and work hard to extricate Australia from the nuclear web in which it has allowed itself to be placed".

Cultural Cringe  "We could have been a brilliant nation if Whitlam had been able to stay", laments Robyn Archer—singer, writer and feminist. "Mention anything vaguely radical and you have lost government. This is a terrible indictment of the way the country is and why celebrating '88 is such a disgrace. We have been increasingly a multi-national outpost, a missile station for the United States. Why don't we declare independence? Why don't we become ourselves?" Archer says that she loves Australia—"that is why I am forced to be so critical of it". (The Bulletin)

All Things to All People  Now that the Labor Party has given up on "consensus" as a political strategy, the Liberal Party appears to be bending over backwards to revive it. Keynote speaker at the Liberal Party's last National Women's Conference was Dr.
Jocelynne Scutt, Deputy Chairperson of the Law Reform Commission of Victoria, and radical feminist campaigner for family law reform. Other speakers included Judith Roberts, Vice President of the South Australian Council of Social Services, who spoke on "poverty", and Josephine Tiddy, Commissioner of Equal Opportunity in South Australia who spoke on "Equal Opportunity and Affirmative Action".

Not to be outdone, the Melbourne Branch of the Liberal Party, following the success of their luncheon with Simon Crean, last year invited John Halfpenny to address a luncheon meeting. The luncheon was later cancelled.

Red Whine Some months ago Senator Susan Ryan criticised academics for not effectively countering the New Right in political debate. But as Bob Connell, Professor of Sociology at Macquarie University, complains, Senator Ryan seems to have forgotten what a hard road it is for "progressive" academics at universities:

"(First) there is the deterioration in working conditions in universities over the last 10 years. What this means, for academics who take teaching seriously, is less time and energy available for policy work. Progressive academics by and large take their teaching more seriously than right-wingers do.

A second is the political situation inside the universities. The majority of academics, especially senior academics, are politically and socially conservative. Progressive academics are obliged to commit time and energy to struggles on campus (e.g. sustaining their unions, supporting equal opportunity, contesting discrimination in promotion) simply to keep a space open for progressive people and ideas. This struggle also has got harder with the downturn in university finances.

A third is the difficulty of getting a public hearing. It simply isn't easy for academics arguing a socially progressive case to get material into the mass media.

Beyond this is a deeper problem that makes effective co-operation between academics and the labour movement hard to sustain. Academic careers are organised in terms of competitive individualism."

The solution, Professor Connell argues, is for the government to fund "a labour movement 'think tank'". (FAUSA News—Newsletter of Australian University Staff Associations).

Bye-Bye Australian In the midst of Mr. Hawke's new "Buy Australian" campaign, officers of the Department of Trade were forced to admit at recent Senate Estimates Hearings that the Federal Government had financed research to aid imports into Australia at a cost of $90,000. (Media Release of Senator Jim Short)

Anti-Nuclear Family New laws and regulations supposedly to protect children's rights are sometimes a barrier rather than support for family solidarity. While a Melbourne couple was taken to court and "divorced" by their 15-year-old son after he was punished for being absent from school, a NSW couple was prevented from adopting an abandoned Sri Lankan child because they were judged too fat. (The Sun, The Australian)

Weightier Considerations Defecting Bulgarian weightlifter, Naum Shalamanov, received a rebuke from Paul Coffa, Director of the Victorian Weightlifting Federation, who told him to go home. "You have no future as a weightlifter here", Coffa said. The International Weightlifting Federation handed out similar advice. And Robert Kabbas, Australian weightlifting medallist, writing in The Age, warned Shalamanov that "when you are young the grass is always greener on the other side". Kabbas says that when he toured Moscow as a young man he would like to have stayed: "I envied the Soviet athletes their opportunities to achieve their full potential: state backing, full-time training and hero status".

All these people seem to be overlooking the circumstances at home which have persuaded Shalamanov to leave, in particular the Bulgarian government's persecution of its Turkish community, of which Shalamanov is a member. Shalamanov pointed out that in his own region alone more than 80 ethnic Turks have been killed in the campaign initiated in late 1984 to "bulgarise" Turkish names. He claimed that some of Bulgaria's Turks are still being tortured. "Better to be a garbage collector in Turkey than a national hero in Bulgaria", he declared. (The Economist)

Behind Bars Following riots at Brisbane's Boggo Road jail, warders have resorted to the use of sarcasm against prisoners, earning the outrage of Queensland's Opposition Prisons spokesman. "I find it sickening that warders should degrade people already degraded enough", he said. Prison officers are reported to have stood in front of inmates singing "I was a big man yesterday, but boy you want to see me now". What next? Will the conflict now escalate with prisoners chanting back the Hebrew slave chorus from Verdi's Nabucco? (The Sun)
Ideological Terrorism in Universities

In the name of protecting racial and sexual minorities, some American liberal-arts colleges are suppressing intellectual dissent and denying free speech.

Brown University runs a "Third World Transition Period", a three-day orientation programme for newly-enrolled coloured students (including American ones) which prepares them for the racism they are about to suffer on campus. Meanwhile the white ("racist") students are subjected to quasi-brainwashing, "consciousness-raising" sessions designed to sensitise them to the feelings of minorities.

In early 1986 a student at Yale Divinity School was found guilty of "sexual harassment" because he pinned to his door a poster advertising a Yale Political Union debate on the motion: "Resolved: CIA Discrimination against Homosexuals is Justified". Another student, protesting at this violation of free speech, pinned the same poster on his door: he was ordered off campus and advised to make a public apology.

It is already impossible to discuss racial issues safely and honestly in American universities, since statements on that subject are tested, not for their validity, but for their effect on racial equality and for the evidence they provide of the speaker's prejudices. Now statements about sex and sexual orientation are being treated in the same way. There may be a case for discouraging discussion of explosive issues in the wider society, but universities have an obligation to encourage the unfettered exchange of ideas. In any case, sexual and racial minorities scarcely benefit from self-righteous agitation on their behalf since this encourages them to believe that equality requires the suppression of liberty and that they are too weak to prosper without the constant approval of, and assistance from, the rest of society.


The Ingredients of Flexible Labour Markets

Recent research by the Organisation for Economic Co-operation and Development (OECD) has concluded that one of the keys to a return to full employment is flexibility in labour markets. The relevant factors are: labour costs (including wage differentials and non-wage costs); conditions of employment (job security and the availability of part-time work); work practices and patterns (especially in response to new technology); rules and regulations (including environmental regulations and tax structures); mobility (between regions, between firms, and within firms); and education and training (including basic knowledge and preparation for vocational change). Labour markets vary greatly from country to country, but those of the most successful economies are flexible in at least some of the respects listed.

Attempts to dissolve labour market rigidities will inevitably challenge vested interests and upset people's sense of security. A "social compact" is therefore needed to explore ways of combining economic efficiency with social progress, and this is more likely to occur in the context of economic growth. "Dynamic economies bent on sustainable growth will have to be flexible. Labour market flexibility is one of the conditions for success".


A Weak Spot in The Western Alliance

NATO's Southern flank, which stretches from Portugal to Turkey, is weakened by a multitude of problems. Land forces are on paper nearer Warsaw Pact levels than in Central and Northern Europe, but their weaponry is incomplete and largely obsolete. The Soviets also have a decisive advantage in the air; only in naval power does NATO have an edge of superiority. The Soviets also have a decisive advantage in the air; only in naval power does

Dr. Michael James is Senior Lecturer in Politics at La Trobe University.
The USA and the Soviet Union are beginning to co-operate tactfully in managing conflict in the region because they share certain interests there (e.g. preventing an Iranian victory over Iraq). But neither power has the will or the resources to impose uniform rules on the area. "Building long-term political stability in Europe and the Mediterranean will depend as much on diplomatic tact and sensitivity to the constraints of alliance co-operation as on military prowess".


The World Debt Time-Bomb

In the 1950s and 1960s many countries were happy to go into debt because they accepted the Keynesian argument that the debt would be financed automatically by economic growth. But this argument assumed that real interest rates would remain lower than economic growth rates. In the 1980s we have learned that continuous deficit financing increases the demand for savings to the extent that interest rates are pushed well above growth rates. Since most Western governments have so far failed to raise taxes or cut spending, they have become trapped in a vicious circle whereby they continue borrowing in order to service existing debt, and in doing so drive interest rates still higher. This process will eventually force governments to renegotiate their debts or even to repudiate them, possibly through hyperinflation.

Several Latin American countries are already suffering savage cuts in living standards simply to pay the interest on their huge debts. Leading American banks should follow the example of the British banks by using some of their profits to write-off the unrecoverable loans they made to those countries.


China’s Rising Ruling Class

Communist China, supposedly a classless society, in fact maintains the ancient Chinese tradition of nepotism, but in a new form. Since the ownership or inheritance of private fortunes is forbidden, the top officials (cadres) secure their children’s future by finding them plum jobs with luxurious fringe benefits. These privileged offspring (the gaoganzidi) are an increasingly conspicuous force in Chinese life: not only has the number of top officials itself increased, but the policy of early retirement of old cadres has sped up the process of passing privilege from father to children, as has the fear of sudden policy reversals in the future. The economic reforms of recent years have served only to widen the scope for corruption, mainly by creating cushy jobs in new, trade-oriented companies. A highly favoured destination among gaoganzidi is Hong Kong, where hundreds of mainland Chinese companies have established offices.

The Chinese leadership would like to end these flagrant abuses, which weaken the legitimacy of the regime. But in China, criticism of an individual brings his whole family into disrepute. The top cadres therefore take steps to ensure that they are not publicly humiliated by the misdemeanours of their wayward offspring.


False Economy in Australia’s Submarine Project

The Australian government, having decided to spend $2.6 billion on building six submarines of a “platform” design, has rejected the three submitted European designs which are truly “proven”. It has instead selected two designs—one German, the other Swedish—neither of which is to be built for the navy of the country of origin. The probable explanation is that the selected designs were cheaper and promised a greater technology transfer for Australia’s electronics and heavy engineering industries. But cost estimates for unproven designs are notoriously unreliable; and the known operational advantages of proven designs (such as Britain’s Upholder design) should surely be a more weighty consideration than possible side benefits to industry.

It is not too late for the government to change its mind and select one of the proven designs. This would delay the delivery of the new submarines by about two years, but the existing Oberons could be safely kept in service for that period. The Upholder design would, if selected, minimise financial and technical risk and facilitate training and tactical co-operation with Britain’s Royal Navy. But political pressure may well persuade the government to announce a premature construction contract before the 1987 Federal election.

Captain W. L. Owen, "Our Submarine Project is on the Wrong Track" Defence 2000, 17 October 1986.

Buying Your Own Unemployment Insurance

Making unemployment insurance part of the welfare state ignores the great variation in unemployment risks throughout the community, and tends to redistribute income from the worse-off to the better-off. Unemployment insurance should therefore be produced in the same way as any other kind of insurance: the premiums and the benefits should reflect the risks insured. Workers who wanted higher unemployment benefits, or who worked in occupations with a high lay-off rate, would pay correspondingly higher premiums. Employers should carry some of the cost, since the premiums would partly reflect their propensity to hire and employ labour.
A minimum level of unemployment insurance should be compulsory for all workers so as to discourage free-riding on the welfare state.

Individual unemployment insurance could make labour markets more flexible by removing the insurance element in many long-term wage contracts and making workers more willing to allow their wages to reflect market conditions. This in turn would increase employment opportunities.


Rewriting History

Government school textbooks used in Texas and California display a bias against religion, traditional family values, and many mainstream activities in American history. The social science textbooks make very few references to Judaism or Christianity, and none at all to Protestantism. One book gives an entirely secular version of the story of Joan of Arc.

Families are invariably depicted without reference to marriage or a homemaker. Of 670 basal reader stories and articles surveyed, none mentions patriotism; there are only two references to the role of business, and none at all to trade unions. Stories about women very rarely involve motherhood or marriage. Some of them are accurate accounts of leading historical figures; but many of the fictional ones are distorting and manipulative in that they depict women succeeding in traditionally male preserves (e.g. the judiciary and the armed forces).

"The above characteristics make it clear that these (books) are so written as to present a systematic denial of the history, heritage, beliefs and values of a very large segment of the American people".

Paul C. Vitz, "Religion and Traditional Values in Public School Textbooks": The Public Interest, Summer 1986.

Rejuvenating the Universities Through Financial Reform

The current malaise in Australia's universities stems from their highly centralised and rigid financial arrangements. Places are "free" but rationed by quotas and allocated by the relatively insensitive indicator of entrance scores. This system lets in the unenthusiastic, barely competent applicant while excluding the highly motivated applicant who just misses the cut-off. The security of tenure enjoyed by most lecturing staff inhibits the rational allocation of funds among disciplines. The salary system rewards incompetent teachers and penalises successful ones. In some faculties (such as Economics) salaries are so uncompetitive that many staff are leaving for jobs in industry or in overseas universities offering better pay and conditions.

The government should finance students through scholarships and loans and allow universities to charge full-cost fees. This would bring more money into the system and so increase the number of places. By giving students greater choice it would break down the rigidities on the staff side and make universities compete more vigorously for high-quality teachers.


Ending Political Favouritism in Literature Grants

The present system of literature funding in which grants are given directly to authors has serious flaws. The writer in receipt of a grant may simply fail to produce or, even if he does, the work may be rejected by publishers. Recipients are expected to give up all other employment for the duration of the grant so cutting them off from a supplementary income source. Decisions regarding grants depend on the value judgements of the small group of people appointed to literature boards, a situation which has allowed the funding of pet causes (for example, the Australia Council's generosity towards trade unions). The dependence of an author on the benevolence of government or quasi-government bodies threatens his artistic and thus political independence. Finally, the present system gives no control to the taxpayers who fund it.

A better system, from the perspectives of both economic efficiency and political freedom, would be to subsidise the market end of the process through indiscriminate subsidies to publishers. This would allow publishers to increase print runs at a cheaper cost per unit which, if the books sold, would mean more money for authors by way of royalties. It would also give consumers more say than they currently have and eliminate the possibility of governments and bureaucrats favouring pet causes in their allocation of public funds.

In 1982, the National Freight Company, the giant UK transport group, was sold to its management and workers. It has become the jewel in Mrs. Thatcher’s privatisation programme with turnover and profits soaring. The employee share-holding and profit-sharing schemes are now being seen as a solution to the seemingly intractable problems of industrial unrest.

The National Freight Consortium (NFC), as it is now known after privatisation, is Britain’s largest transport, storage, distribution and travel business. It is essentially a holding company for such companies as British Road Transport Services, National Carriers, Roadline and Pickfords Removals. Since its privatisation in 1982 the company’s performance has been spectacular. The value of its employees’ shares has increased twelve-fold and profits have soared.

In 1947 long-distance road haulage was nationalised. The 1953/56 Conservative Government partially denationalised it but in 1968 Mrs. Barbara Castle, then Secretary of State for Transport in the Labour Government, renationalised it under the Transport Act 1968 as the National Freight Corporation. The corporation’s performance was patchy in the ensuing decade and some operations, such as parcel delivery, sustained high losses.

In 1980 the Conservative Government formed the National Freight Company Limited with its equity share capital owned by the government as the first step to its eventual privatisation. This plan was upset by economic recession and the decision of British Rail to shut its collect-and-deliver parcel service which led to lost contracts worth £25 million to the company which provided the drivers and vehicles. The Government was advised by its merchant bank that a successful sale could not be considered for at least two years. This placed the Government in a difficult position since the sale of the National Freight Company was explicitly referred to in its 1979 election manifesto. Management feared that this bad news would lead the Government either to break up the company or sell it regardless of its banker’s advice, in which case it would probably have fallen prey to asset stripping because of its substantial property holdings.

The management’s solution to this impasse was that they should buy the company, a solution the Government was in a mood to agree to. This, however, would require substantial loans from a major financial institution which would hold only a very small fraction of the shares. It became clear that for this proposal to be acceptable to potential backers, the workforce would need to be involved in the buy-out both to ensure that sufficient money was raised by the share issue and to obtain the commitment of the workforce to the transition.

The buy-out also posed complex legal issues. Under the English Companies Act of 1948 individuals are effectively prevented from buying a company on security of its own assets. This provision was originally designed to prevent fraud and not to deal with management and worker buy-outs. The Government reformed the law in 1981 to remove this obstacle.

Another potential obstacle was trade union opposition to the sale. The trade unions’ reactions to the proposed privatisation varied. The National Union of Railwaymen and Transport Salaried Staff Association, while opposed in principle to privatisation, accepted the Consortium’s proposals as less objectionable than the alternative. The United Road Transport Union was in favour of privatisation. The largest union, the Transport and General Workers’ Union actively opposed the buy-out. However, in the event, the employees of NFC...
MRS. THATCHER’S WORKER CAPITALISTS

made up their own mind and some 38 per cent of them bought shares in the Consortium. Since then a further 22 per cent of workers bought shares so that today some 60 per cent of the employees (19,500) hold shares in the Consortium.

The management got together with Barclays Merchant Bank to make an offer of £53 million to the Government. This was agreed with the Government provided the staff of 25,000 could raise over £4 million by January 1982. The other £50 million plus £30 million in working capital would be supplied in the form of bank loans by the banking consortium. This ratio of 144 per cent debt to equity in a company is unusually high. But it was considered necessary to reduce the amount of equity capital needed to the point where individuals would be willing to purchase all the available shares. The willingness of the banking consortium to lend over 40 times their own equity holding of £1.3 million showed considerable faith in the venture.

The issue of 6,187,500 ordinary £1 pound shares in NFC opened on 25th January 1982. Interest-free loans of up to £200 were made available to employees to buy shares and a target of £4.125 million (two-thirds of the shares issued) was set as the minimum subscription from workers and management. The issue was in fact over-subscribed resulting in the return of over £800,000 and the scaling down of individual applications. Over 10,000 employees, company pensioners, and their families purchased an average of £719 worth of shares. Although the Treasury received £53.5 million it returned £47 million to the Consortium’s pension fund by way of acknowledging that it had been under-financed during the period when it was state-owned.

Post Privatisation Performance

In the period since privatisation NFC has gone from strength to strength. In fact, NFC has experienced a remarkable transition from a lacklustre operation in an unglamorous sector to a dynamic company. Profits, turnover, and dividends have all shown substantial year-on-year increases. Turnover has risen from £461 million to £667 million in 1984/85. Trading profit has risen from £4 million to £36 million over the same period. In the half year to March 1986 the results of NFC showed further improvement. (Full year results are reported in February). The Consortium is also diversifying its operation by seeking overseas markets, particularly in the US, Australia and the Far East.

The Australian subsidiary, removalists Downard Pickfords Pty. Ltd., has its headquarters in Melbourne.

NFC has continued its effort to broaden the base of its employee shareholding. Since privatisation it has had two wider share ownership campaigns. These have attracted over 6,000 additional employee investors. The Consortium has adopted a policy of keeping the entry price low by offering new workers a £200 interest-free loan for the purchase of shares.

Those who bought shares in the original buy-out have seen the value of their holdings increase thirty-one fold. An employee with the minimum holding of 100 £1 shares now has an investment valued at £3,100.

Post Privatisation Performance

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Vehicles are traded in an internal share market so that their value reflects market conditions and company performance. So far there has been a strong buying trend in this market with buyers exceeding sellers. The management agreed at the time of the buy-out not to list the company on the Stock Exchange for at least five years.

Prospects

There is no doubt that NFC has been the major success story of privatisation. However its success is creating tensions which could well undermine its ability to continue as an employee-owned company.
The success of NFC has increased the value of shares to a point where they are becoming too expensive for workers. Although buyers still exceed sellers in the internal share market the gap is closing and a situation will soon arise where the market becomes stagnant because of insufficient demand for shares because they have become too expensive. In the document NFC - The Way Ahead the management recognises this as a major problem and has tackled it with a package of reforms designed to ensure that, at least in the short term, the company remains firmly in its employees' hands. The package includes bonus shares and profit-sharing schemes and the opening-up of the internal share market to external institutional shareholders. The last move would permit certain financial institutions to have limited access to NFC's internal market. These shareholders would only be permitted to purchase shares if there is insufficient demand from NFC employees and other privileged shareholders and on terms which preclude them from taking control of the company without the consent of employee shareholders.

These reforms do not rule out the possibility of NFC being floated in the future. If the success of the company continues then there may be increasing pressure for floating the company on the stock exchange in order to broaden its investment base. The employees of the company may be tempted to sell their shares and reap what could be a very significant capital gain.

Indeed, the prospect of a capital gain is a two-edged sword—since it both explains the success of the buy-out and the pressure which it builds up for a wider trading in NFC shares. What the effect of this eventual dilution of employee ownership will be depends on whether and to what extent one believes the Consortium's success so far has been the result of what its Chairman, Sir Peter Thompson, has called the "major ingredient X" of worker ownership.

**Lesson for Other Privatisations**

The buy-out of NFC is a unique event in Mrs. Thatcher's privatisation programme. It occurred because of external events and the political pressure not to delay the sale of a state-owned company. What lessons can be learned from NFC's worker buy-out?

The first is the need to treat workers as preferential buyers—in essence to give them "sitting tenants" rights. The government is clearly in favour of this approach. In all the sales of state-owned enterprises so far there has been a concerted attempt to induce workers to buy shares. This has lead to a high degree of worker participation in the privatisation process. In all cases, workers have obtained shares at a discount or with the assistance of interest-free loans. For example, the Government announced that the 90,000 workers entitled to buy shares in British Gas would each be eligible for free shares worth £70 plus £2 for each year's service. In addition, the Government will provide two free shares for each share bought by the employee up to a maximum of £300. The employee can also buy up to 2,000 shares at a 10 per cent discount.

But if one tries to use the case of NFC as a model for future privatisations or industrial ownership then I think the lessons are less clear. Other than NFC and certain sections of National Bus, it has never been contemplated that all sales should take the form of management and worker buy-outs. In a number of cases, such as British Telecom, the solution would have been impractical given the value of the company and hence the need to appeal to the widest possible number of potential shareholders.

Yet worker buy-outs have an intuitive appeal. They seem a recipe for increased efficiency and productivity.

There are, however, long-term difficulties with this form of industrial organisation. The basic difficulty with worker profit-taking and shareholding is that can inhibit efficient risk-bearing. Capital can diversify its risks through prudent investment. Labour has less opportunity for this if an employee's income and investment are linked to the same risky enterprise.

**Employee Share Schemes in Privatisation**

<table>
<thead>
<tr>
<th>Company</th>
<th>Percentage of workforce participating</th>
<th>Percentage of shares held by workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>BP (1979)</td>
<td>43</td>
<td>0.25</td>
</tr>
<tr>
<td>British Aerospace (1981)</td>
<td>74</td>
<td>3.6</td>
</tr>
<tr>
<td>Cable &amp; Wireless (1982)</td>
<td>99</td>
<td>1.4</td>
</tr>
<tr>
<td>National Freight Company (1982)</td>
<td>36</td>
<td>82.5</td>
</tr>
<tr>
<td>Britoil (1982)</td>
<td>72</td>
<td>0.1</td>
</tr>
<tr>
<td>Associated British Ports (1983)</td>
<td>90</td>
<td>4.3</td>
</tr>
<tr>
<td>Enterprise Oil (1984)</td>
<td>71</td>
<td>0.03</td>
</tr>
<tr>
<td>Jaguar (1984)</td>
<td>19</td>
<td>1.3</td>
</tr>
<tr>
<td>British Telecom (1984)</td>
<td>96</td>
<td>1.9</td>
</tr>
</tbody>
</table>
Mrs. Thatcher's programme is being copied worldwide.

The Economist, the UK Weekly (December 20 edition), lists the countries where major state-owned assets are being sold and those where major sales are planned.

In the U.S., privatisation proposals have dealt with municipal services, public lands, and air traffic control.

The New York Times now has an economic writer assigned almost full-time to cover privatisation developments. Ed Feulner, President of the Heritage Foundation—a leading Washington-based think tank—argues that "Privatisation provides for greater choice of services at reduced cost and, over time, gained popular support because it leaves the services intact."

### Sale of Public assets

<table>
<thead>
<tr>
<th>Country</th>
<th>For Sale</th>
<th>Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Graz-Koflacher Eisenbahn und Bergbau GmbH; Feplahirsch GmbH; Futurit Werk AG; OMV</td>
<td>Bayou Steel Company</td>
</tr>
<tr>
<td>Britain</td>
<td>British Airports Authority; British Airways; Royal Ordnance; Rolls-Royce; Shorts; Unipart</td>
<td>Associated British Ports; Amersham International; British Aerospace; British Gas; British Petroleum; British Rail Hotels; British Sugar Corporation; British Telecom; British Coal &amp; Wireless; council houses; Enterprise Oil; Inmos; International Aeradio; Jaguar; Land; National Bus Company; National Freight Consortium; North Sea oil licences; Sealink; some other bits and pieces</td>
</tr>
<tr>
<td>Canada</td>
<td>Donohue (Quebec); Eldorado Nuclear; Teleglobe</td>
<td>Cambior (Quebec); Canadair; Canadian Arsenals; Canada Development Corporation; de Havilland; Nanisivik Mines; Northern Transportation; Pacific Western Airlines (Alberta); Quebecair (Quebec); Urban Transport Development Corporation (Ontario)</td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td>Kryolitselskabet*</td>
</tr>
<tr>
<td>France</td>
<td>AGF; CGCT; Paribas; TF1</td>
<td>Elf-Aquitaine*; St Gobain*</td>
</tr>
<tr>
<td>Holland</td>
<td>KLM</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>Alfa Romeo; Alitalia; Banco Nazionale del Lavoro</td>
<td>Aeritalia*; Selenia; Sirti*</td>
</tr>
<tr>
<td>Japan</td>
<td>Japan Airlines; Japan National Railways; Japan Tobacco Corporation</td>
<td>Nippon Telegraph &amp; Telephone*</td>
</tr>
<tr>
<td>Spain</td>
<td>Iberia</td>
<td>GESA; ENTURSA; SEAT; Seccoinsa; SKF; Textil Tarragon; Viages Marsans</td>
</tr>
<tr>
<td>Turkey</td>
<td>Sómerbank; Turkish Cement Corporation; Turkish Fertilizer Corporation</td>
<td>Bosporus bridge; Keban dam</td>
</tr>
<tr>
<td>United States</td>
<td>Conrail; Continental Illinois; assorted government loans</td>
<td></td>
</tr>
<tr>
<td>W. Germany</td>
<td>Deutsche Pfandbriefanstalt; Deutsche Siedlungs und Landesrentenbank; Deutsche Verkehrskreditbank; IVG; Volkswagen</td>
<td>Veba; Viag*</td>
</tr>
</tbody>
</table>

*Government still holds some ordinary shares
The Family is Back in Fashion
The US Bauer Report
Peter Samuel

America led the Western world in the 1950s and 1960s in experimentation with a libertarian approach to social and sexual roles and looser interpretations of the family. Now it may be in the vanguard of moves to re- emphasise the importance of family life.

American politicians of almost all colours are now emphatically “pro-family” and are proposing changes that will strengthen the role of the family.


The Report begins with a quotation from President Theodore Roosevelt in 1908, saying that we can get along for the time being with inferior success in business or politics and other endeavours outside the home... but if the mother does not do her duty, there will be either no next generation, or a next generation that is worse than none at all... we as a nation cannot get along at all if we haven’t the right kind of home...” Bauer’s group argues that a “new consensus” is emerging in America on the value of the traditional family, after what it calls “two decades of unprecedented attacks upon it”. The changing times are indicated in the ease with which 27 officials adopted a definition of the family as “a household of persons related by blood, marriage or adoption”. In 1980, a similar White House convention on the family broke down in confusion after failure to agree on a definition of the family!

The 1960s and 1970s were a period of “domestic strife and social dislocation” in which American society was severely affected by “an animus long at war with the values and beliefs of democratic capitalism”. The anti-family agenda of the self-styled progressive movement saw a government solution to every problem, producing a cycle of new problems and new government solutions. “Because government had fostered welfare dependency, more government programmes were needed. Because government imposed crushing economic burdens on families, more government redistribution of income was required. Somehow the bottom line was always the same: government would take resources from the families of America in order to help them”.

Such “progressive” policies, the Bauer Report says, are a step in the direction of totalitarian social policy in which the power of the state is substituted for the “rights, responsibilities and authority of the family”.

“It is no accident that every totalitarian movement in the 20th century has tried to destroy the family. Marx and Engels viewed family life as Cato viewed Carthage: it was to be destroyed. Their disciples in state socialism, from the Petrograd Soviet to the Third Reich, from Hanoi to Havana, have sought to crush family life”.

Bauer argues that “private choices have public effects”. What individuals do about their family and sexual relationships has profound effects in shaping the society and nation. The productive families of America are paying a “staggering sum” for the welfare dependency, drug rehabilitation, under-education and sexually transmitted diseases spawned by “progressive” policies and values—says Bauer.

“It is time to reaffirm some home truths...” Intact families are good. Families who choose to have children are making a desirable decision. Mothers and fathers who then decide to spend a good deal of time raising those children themselves rather than leaving it to others are demonstrably doing a good thing... they ask no special favours. They do these things naturally... they are the bedrock of our society. Public policy and the
culture in general must support and reaffirm these decisions, not undermine and be hostile to them or send them a message that we are neutral”.

Democratic capitalism depends heavily on families for its survival, says the Report, because capitalist and individualist thinking is nurtured in the family. It is “the primary training ground for individual responsibility, for self-sacrifice, for seeking a common goal... Children who do not learn to live out commitments to others in a family do not learn to live within a larger society either”.

A number of changes in public policy are urged.

The “easy availability” of welfare is described as contributing to family break-up and child poverty. Modest levels of welfare can assist people but, as they increase, “welfare payments may actually result in more poverty, including child poverty, because dependency becomes more attractive than labour and self-sufficiency”. A report of the Joint Economic Committee on “Poverty, Income Distribution, the Family and Public Policy” documents a U-shaped curve according to which welfare payments begin by reducing poverty, but after a point raise poverty as they are further increased, because work disincentives and family break-up incentives come into play. The Bauer Report comments: “That sobering nexus should be pondered by every would-be humanitarian demanding higher welfare spending”.

The existence of public welfare for single mothers leads to them putting less pressure on the fathers of their children for responsible behaviour, the Report observes. Family planning programmes for teenagers are also criticised because, it is argued, they increase teenage pregnancies and abortions. The Report cites a study by Olson and Weed of the Institute for Research and Evaluation which found that enrolment in a family planning programme raises pregnancies between 5 and 12 per cent.

**Tax Burden on Families**

The Bauer Report recommends that Aid for Families with Dependent Children (AFDC) welfare be restructured so it is limited to minors who agree to live with their parents, where there are more restrictions on “irresponsible” behaviour. The demand for welfare for broken families is largely a failure of child support enforcement, the Report says, with US$10.1 billion due in such payments from fathers compared to US$7.1 billion in payments made. It recommends that greater resources be devoted to enforcement of child support.

Child adoption must be revived as a means of responding to unwanted pregnancies and as a method of reducing abortion, the Bauer Report urges. Increases in dependent tax exemptions and liberalised state adoption regulations are cited as appropriate reforms to reduce abortion and increase adoption.

The American tax system was unduly onerous on the large family in the 'sixties and 'seventies. The couple with two children watched their average tax rise 43 per cent in two decades, whereas the family with four children had a rise of tax rates of 223 per cent. This was a result of inflation's erosion of the value of the income tax exemptions for family members. The recent tax reform in the US, by increasing and indexing the exemptions taxpayers receive for themselves and their children (from US$1,000 to US$2,000), will greatly improve the position of the family in America. The Bauer Report urges an increase in the exemption to US$5,000 as an “eventual goal” which is not presently feasible because of the budgetary environment.

Most destructive of families (and much else) is a mode of “deterministic” thinking encouraged by many social scientists, says the Bauer Report. The fatalistic attitude according to which explanations for bad behaviour (excuses) are found everywhere but in the individual and the family and diffused in “society”, the “environment” or in “circumstances” outside personal control has produced a “catalogue of misery”. The “deterministic” view of peoples’ behaviour denies character and responsibility.

“We must stop providing excuses, for excuses guarantee failure. When we tell our children that external circumstances are more important in shaping their future than are virtue and self-restraint, they will have little use for virtue and self-restraint. They will think that industrious and law-abiding people, perhaps their own parents, are fools”.

Avoiding the "Swedish Disease"

Peter McLaughlin

Is Sweden the economic success story that Australia should follow? After a close-up look, Peter McLaughlin concludes that Australia has more to gain by avoiding Sweden's mistakes than emulating them.

In September 1986 a high level study group from the ACTU returned from a visit to Sweden arguing that Australia had much to learn from the Swedish system of industrial relations and labour management.

In October I headed a Business Council of Australia Study Mission to Sweden to assess the relevance of the Swedish model for Australia.

In trying to make an objective assessment the questions uppermost in our minds were: is Sweden really a wealthy, dynamic economy coping better than most with the economic challenges of the eighties? Is this "success story" attributable largely to the workings of the centralised wage bargaining process in Sweden and the close involvement of trade unions in many facets of Swedish economic, industrial and social life, as the ACTU Report would have us believe? What are the features of the Swedish system that we could usefully seek to emulate?

To take the last question first, two things stood out. First, the awareness of at least the private sector labour force in Sweden of the importance of international competitiveness, and the critical role in that of labour cost restraint and productivity. Stress is also laid on this in the ACTU Study Group Report and that is to be welcomed.

Second, Sweden owes much of her industrial success and comparatively high standard of living to a tradition of enterprise level co-operation between employer and employee (again at least in the private sector). Increasingly, Australian businesses are devoting attention to this area, but the "on-average" superiority of enterprise level relations in Sweden is striking.

These more effective enterprise level relations have been helped by the fact that overall working arrangements and conditions—wage and non-wage—are embodied in what are in effect enforceable contracts. Once an agreement is in force, industrial action—both strikes and lock-outs—is prohibited. And by and large both sides have traditionally been prepared to honour such agreements.

Corporate State Road

Beyond those points the main lessons for Australia lie in avoiding Sweden's mistakes. The overriding impression we formed was that Sweden had travelled further down the corporate state road than Australian business and the Australian public would regard as appropriate.

In particular, we need to avoid the suffocating effects of a public sector that absorbs, either directly or indirectly, two-thirds of the Swedish national economic output (and the taxes which go with it). This is recognised in the public policy stances of both the present Australian Government and the Federal Opposition.

We need to avoid the self-inflicted wage compression which, in combination with marginal tax rates as high as 80 per cent and the large public sector workforce, is now at the heart of Sweden's labour cost difficulties. This compression has been a calculated element of Sweden's so-called solidarity wages policy, the two prongs of which are equal pay for equal work regardless of enterprise level ability to pay and the deliberate relative increase of wages of the lower paid.

It is also difficult to see any useful role in Australia for the web of industrial democracy and other industrial legislation that has found its way onto the Swedish Statute books. And finally, as one very

senior Swedish, and for that matter international, businessman put it, Sweden provides a classic illustration of the long run costs to business and to the economy of what are considered at the time to be "minor" concessions to a trade union movement seeking to broaden its influence beyond traditional industrial matters.

It was in this wider context that business found the ACTU Report to be such a disappointment. Even more disappointing was the subsequent Wages Committee decision of 9 October 1986 which, at least by association, invoked Swedish experience in support of the call therein for the establishment of a National Development Fund, restrictions on outward investment by superannuation funds, Industry Development Plans, a national employment and training fund to be funded by employers and sundry other new tripartite interventions. While most businessmen recognised the document for the ambit claim it was, the union movement has to recognise that the fact that such proposals still apparently find widespread support within the ACTU do little to build a perception among the business community of a new, enlightened union movement. Given the fundamental difference in social and political mores between Sweden and Australia that would be true even if there were some encouraging Swedish precedents to draw on in the areas concerned. The fact that there are not merely increases the cause for disappointment.

A Faltering Economy

What then of Sweden's recent economic performance? Has she been a high flyer whose secret we should be seeking to uncover?

After a long period of expansion during which Sweden lifted her living standards into the top few countries in the world, the Swedish economy faltered during the seventies under the weight of the sort of rigidities outlined above. Of course, the performance of all Western economies deteriorated during the seventies, but the Swedish economy seems to have been more stagflation prone than most. Successive devaluations and a strong expansion in public sector spending during the seventies could not prevent the economy growing at less than the OECD average. Private disposable income per capita remained virtually unchanged. Large scale unemployment was avoided only by sending home migrant workers, expanding the public sector and (tax financed) labour market programmes. For much of the seventies too, Swedish productivity declined relative to that of her major trading partners, nominal wage increases matched or exceeded those of major trading partners and relative unit labour costs rose consistently, contributing to five separate devaluations between 1976 and 1982.

Then as Sweden attempted to make up for the lack of demand in the world economy by increasing public spending she compounded some of her problems. The total public sector share of GDP (including transfers) reached a peak at 68 per cent in 1982 compared with a little over 40 per cent in the early seventies. This public sector expansion was financed by increased taxation and by borrowings—the share of GDP absorbed by taxes of one form or another increased from around 40 per cent in 1970 to over 50 per cent in 1982. The public sector deficit peaked at around 13 per cent of GDP in 1982. Foreign debt exploded.

Thus, rather than being a pace-setter for Australia, Sweden's performance over the last 15 years has probably been somewhat inferior by comparison. The Swedish economy grew by an average of 1.9 per cent per annum in real terms between 1971 and 1984 compared with 2.9 per cent in Australia. We would both be below the OECD average in per capita terms. Business investment in Australia has also performed better than in Sweden. Swedish inflation averaged 9.1 per cent, only marginally better than Australia's 9.5 per cent. The only Swedish new jobs created have been in the public sector and they have barely made up for a 5 per cent decline in private sector employment over that period. Private sector employment increased 9 per cent in Australia over the same period.

Why, you might be asking, is it that visiting Australians can see these problems and the Swedes cannot? The answer is that an increasing number of them can, as well as the need for a change (reversal) of direction.

The task of winding back the public sector has begun—its share of GDP has been cut back to the low sixties and the deficit to 5 per cent of GDP. The Study Group encountered concern in Government, employer and some union circles that wage compression has gone too far and is now contributing to skill shortages and a "brain drain".

And since the two large devaluations forced on the Swedish authorities in 1981 and 1982 things have looked up a little. As in Australia in 1985, the Swedish authorities have attempted to make a virtue out of necessity. They responded to the devaluations by tightening fiscal and monetary policy and by trying to bear down on wages growth. Growth has strengthened, profitability has
increased and investment has recovered from earlier low levels. Private employment has expanded for the first time in over a decade. A current account deficit of over 3 per cent of GDP in 1982 has been turned into a small surplus by 1986.

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Does that mean that Sweden is once again on the road to sustained growth free of balance of payments difficulties? According to the Swedish trade unions, yes. According to Swedish business, government officials and economists, no. Concern remains about the rigidities and their on-going growth impairing effects. Concern also remains about the possibility of further balance of payments difficulties a year or two down the track. Also Swedish wage inflation continues at around 7-8 per cent per annum, more than double her trading partners.

In short, like Australia, Swedish industry currently enjoys increased competitiveness, but faces a major task in reining back relative labour cost increases to preserve that position.

Wage Fixing in Sweden

Any country with a continuing relative labour cost inflation problem should be an unlikely candidate from which to be copying a wage fixing system. So, is the two-tiered wage fixing system here a copy of the Swedish model? And, if it is, why would we copy a system with such a bad track record?

Many are clearly under the impression that the two-tier system in Australia is a copy of the Swedish way of fixing wages. While there are some similarities, that is far too simple a view.

Traditionally, since the 1930s at least, Swedish wages have been fixed by annual (or biennial) negotiations on up to three levels:

- first there are central negotiations between peak employer and union bodies;
- those negotiations settle on a recommended average national wage increase, and industry level negotiations then settle how that increase is to be distributed;
- a familiar pattern is for everyone in the industry to receive a general increase—usually a flat money amount because of the policy of wage compression—with a "kitty" (or second tier) available for negotiation at enterprise level.

In effect, the Swedes have evolved a system in which average wage movements are centrally determined (or are supposed to be); a system which guarantees some wage increase each year for everyone; and which provides for some flexibility within the total. The two-tier system has moved us in that direction—but the Swedish arrangements are more complex and, of course, are built around collective bargaining not arbitration.

In recent years the centrally determined increase has become the minimum from which everyone tries to negotiate upwards with the actual average increase coming out 3-4 per cent too high. As well, there has been increasing use of non-wage forms of remuneration, inter alia, to provide more flexibility.

What are the lessons for Australia? First, and on the positive side, the existence of shop-floor or local-pay negotiations within the "centralised" framework is an interesting feature of the Swedish system for those who seek greater longer-term flexibility in the Australian wage fixing system. Second, and still on the positive side, an important reason why the system worked so well for as long as it did is the fact that agreements once reached are embodied in what are in effect enforceable contracts. Third, we should avoid the wage compression that Sweden has inflicted on herself in the name of a more egalitarian society. And, fourth, unlike the Swedes we should not rely on voluntary compliance in our second tier—at least not until the traditional "me-tooism" of Australian wage claims has been dethroned.

Non-wage Industrial Regulation

As noted, a complex array of labour market regulation has found its way onto the Swedish statute book. Individual Acts are measured in the scores, and many have been introduced since the early seventies as part of a strong co-determinist push from the peak union councils.

Perhaps the two most controversial laws have been those relating to compulsory union representation on company boards and the Co-determination at Work Act of 1977 which requires minimum levels of consultation and negotiation on all manner of work-place related matters. This is of particular interest in Australia where the Govern-
ment's Green Paper on Industrial Democracy and Employer Participation is currently under consideration.

The Study Group’s assessment was that where enterprise level relations had been good before the Co-determination Act was passed it made little difference. After some initial hiccups, management and labour found ways to work within it. Where relations were not so good, the legislation made for a good deal of time consuming confrontation.

The other impression formed was that central union officials placed a good deal more store on the need for formal co-determinist approaches than the workers themselves. One suspects the same thing is true in Australia.

Investment and Collective Funds

The Study Group found this to be an area where Australian impressions about Sweden are perhaps widest from the mark. Certainly, any picture of a comprehensive tripartite direction of investment or of a National Development fund is wrong.

What has happened is that as a sop to the trade union movement at least two types of “funds” have been established in recent years which, at best, will have no effect on either the total or direction of investment and, at worst, will probably have deleterious effects in the longer run.

So called wage earners’ funds were introduced in 1984. These funds are financed through a compulsory “profit sharing tax” (approximately 20 per cent of after-tax profit with some adjustment for inflation). In addition, a 0.2 per cent surcharge on employers’ contributions to the national pension scheme is directed to the funds. It has a sunset of 1990 by which time accumulated funds are expected to be equivalent to about 8-9 per cent of the value of shares on the Stockholm stock exchange. While the scheme was publicly justified on the grounds of promoting higher national savings and the supply of risk capital, more than 90 per cent of the funds so far have been invested in common Swedish stocks and there is no evidence that they have contributed to either of those objectives.

The Swedish business community is also very apprehensive about the potential impact of the scheme on private ownership of Swedish industry. They are able to point to substantial evidence that the real motivation as far as the union movement is concerned is the collectivisation of ownership of Swedish industry. The funds are managed by five regional boards having a majority of union representatives. While each fund will be limited to no more than 8 per cent of any one listed company, it would be possible for five to acquire 40 per cent in combination. The business community is also concerned that 1990 will not see the end of the funds and that extension of the scheme will emerge in one form or another.

Renewal funds were introduced in 1985 and are supported by tax exempt company allocations of 10 per cent of pre-tax profits deposited in blocked non-interest bearing accounts with the Bank of Sweden. The funds are to be used for education and training of personnel, and/or for research and development. A major motivation of the scheme seems to have been to attempt to “buy” some wage restraint from the unions in the face of improving profits following the devaluation. No decision had been made at the time of our visit as to whether the scheme would be extended to 1987. The consensus seemed to be that it would not.

There is not the slightest evidence from the Swedish experience that “investment” or “development” funds of various sorts can improve national investment performance or would in any sense be an acceptable “trade off” for wage restraint. Indeed, by reducing corporate cash flow and undermining business confidence it is more likely that such funds in Sweden will ultimately reduce productive investment.

Concluding Remarks

There is one further very important point against which to judge the foregoing, the relevance of the Swedish system to Australia and the interest in Sweden of at least some elements of the ACTU. That is, that Sweden over at least the past 30 years or so has set out to make itself into a “model” social democratic society. It has had Social Democratic governments for 45 of the last 50 years. On average, those governments have been well to the left of the present Australian Government and have operated in tandem with the trade union movement (covering 80 per cent of the workforce).

It is hard to see the majority of Australians wanting to go down that same road. Most Australians want less government, not more. Most think our trade unions have too much power already without handing them more. There is nothing in the Swedish experience to suggest those sorts of instincts are wrong.
DEFENDING AUSTRALIA

Harry Gelber

Falsification of History

One of the more intriguing aspects of contemporary Australian foreign and defence policies—or, more precisely, of the politics of policy—is the search for something called “independence”, and the pressures on political leaders to stress an assertive Australian nationalism on all suitable, and even some unsuitable, occasions. That search for independence is doomed to a large measure of frustration since it is conducted in an economic and political world where the real issues are concerned with modes of behaviour within increasing webs of interdependence. But the impulse of nationalism stems from complex desires and needs which deserve a further glance.

At least since the 1960s Australia has experienced growing domestic pressures for a definition and assertion not just of visibly separate Australian policies but of a distinctively Australian cultural and social personality. This has a number of different, even mutually contradictory, components. In part, there is a reaction to the new ethnic and cultural diversity of the nation. In part, there is a search for a new isolationism to repel unwelcome external trends or even to express a sense of Australian weakness. In part, we have the creation of new or revised myths of the kind which sustain most nations and even non-national entities. But two elements in the search seem likely to be futile, even counter-productive.

Both have to do with a falsification of history. And since a new and healthy national consciousness can only grow from a relaxed acceptance of past reality, that falsification is likely to hinder instead of promote its development. The first has to do with a misrepresentation of earlier relationships with Britain and the USA. The second concerns nothing less than an attack on the moral justification for any Anglo-Saxon (or Anglo-Saxon-based) Australian culture.

It has become conventional wisdom to believe that, in relation to Australia, the British were almost always ignorant, oppressive, irritatingly superior, selfish and in any case foreign. In the light of the political assumptions of the 1980s, the inevitable implication is that British rule in Australia was always somehow illegitimate, a denial of Australian freedom; that Australia's participation in imperial conflicts and wars (and, later, American-led ones) was a sort of entrapment of innocent young Australia (or, later, demeaningly subservient Australia) in the conflicts of others. From that it is easy to deduce that for too long Australian leaders were too sensitive to opinion in London or Washington, that Australia only began to be truly independent sometime in the 1970s.

These lessons have been driven home by a number of popular films and TV stories, like “Gallipoli” and “Breaker Morant”. The impact of their distortions and misrepresentations has been the greater in a period when the teaching of history has become relatively neglected in many secondary schools and the historical profession may have placed too little stress on von Ranke’s dictum about the need for history to portray events “wie es eigentlich gewesen” (as things actually were). There has been very little stress on the obvious fact that not all convicts were innocents falsely condemned, or the fact that the men who built Australia were, and thought they were, British, or that until less than a generation ago most Australians thought of themselves as British still.

If Australia went to war in 1914 and 1939 it was because the overwhelming majority of Australians thought that the country’s security was...
naturally and inevitably bound up with the welfare and security of the British—later Commonwealth—family. Indeed, there is no evidence at all that any Australian Government in this century took its foreign or defence policy decisions in the light of anything other than its conception of Australia's best interests at the time. That mistakes were sometimes made is in the nature of things. That mistakes were made merely because Australian Cabinets wished to curry favour in London or Washington is a view which cannot be sustained. It was Australia—in the person of Percy Spender—which pressed for the conclusion of the ANZUS Treaty. It was Australia which, during the early 1960s, was even more determined than President Lyndon Johnson to get, and maintain, an American commitment in Vietnam while severely limiting its own commitment there. It is Australia which has used the presence of the Joint Facilities, among other things, for an unprecedented upgrading of national intelligence capabilities and to create an equally unprecedented access to the highest policy and decision-making councils of the Western alliance.

Misplaced Guilt

Then there is the view which is sometimes heard that the creation and development of Australia is in any case a story riddled with aggression and fraud of all kinds, the implication being that there is something illegitimate about the very structure of Australian society, a guilt that must be expiated. There are several components of this notion. One is the kind of vague longing for moral and political purity, and impatience with practical imperfections, which tends to flourish in particularly secure, stable and tolerant societies. Another is the instinctively anti-Western attitude which has afflicted parts of the intelligentsia at least since the Vietnam war. It is sometimes allied with suspicion of Western technology among conservationist groups and its reflection can be seen in the uncritical admiration of things Asian which is one strand of contemporary public discussion.

A third has to do with guilt feelings about how Australia was settled and with the subsequent treatment of Aborigines. This debate, too, seems full of confusion. There appears to be no agreement on whether Aboriginal policy should seek assimilation (for example by way of reverse preference) or whether it should aim at the development of a separate Aboriginal culture. The two are, of course, incompatible. Nor is it clear just who should feel guilty about the admittedly wretched treatment of Aborigines in the past. If my grandfather stole from your grandfather, that does not make me guilty of anything, nor do I owe you reparation. Of course, there may be many reasons why I should want to help you, but guilt is not one of them. There are at least equal conceptual difficulties about any suggestion that I should bear personal moral responsibility for the actions of my Government, especially if I have tried to use normal democratic processes to get policy changed.

Much more broadly, there can hardly be a nation anywhere whose creation and maintenance is based solely on political purity. On the whole, the record of Australia is much better than most and we are entitled to be reasonably relaxed about the mistakes, even crimes, of a past which cannot now be changed. Nor is practical judgement obliged to bow to a fashionable cultural relativism which pretends that value distinctions between polities and cultures cannot legitimately be made. For all their very real shortcomings, the founders of Australia were not wrong to think that, on the whole, they were bringing law and civilisation into a heathen wilderness. It may be difficult if not impossible to define an agreed standard by which the comparative "value" of cultures could be measured. But then, as the late Prime Minister of Britain, Clement Attlee, once remarked: you can't define an elephant, but you know when you see it. It is surely not possible to look around the world without concluding that, whatever the follies and mistakes of our past, what has emerged is an enviably free, reasonably affluent and—in spite of the intolerance of many would-be social reformers—tolerant society. It is not helpful, either in our domestic affairs or our foreign relations, to imply that it is in some way unworthy.

It may be that this unworthy sense of Australia's unworthiness is actually fuelled by our very ignorance of foreign polities, cultures and languages. The novelist Anthony Burgess might have been writing about many Australians when he once spoke of the "monoglot Englishman, unworthy to enter any comity of nations, tied to one tongue as to one cuisine, and one insular complex of myths". As we come to understand other languages and cultures better, we shall perhaps become more satisfied with our own.
Moscow's South Pacific Push

Michael Danby

In a speech at Vladivostock in July 1986 Mikhail Gorbachev announced Moscow's intention to expand its connections with the nations of the South Pacific. The visit of Soviet Foreign Minister, Edward Schevardnaze, to Australia and the region underscores Moscow's determination to put Gorbachev's words into practice. Acting via trade unions, churches, political parties, peace fronts, youth groups and finally commerce, the Soviet Union is steadily strengthening its influence in our region.

Foreign Minister Bill Hayden recently warned that an ostensibly commercial arrangement between Vanuatu and the Soviet Union could open the way for Moscow's political manipulation of the South Pacific Island State. Until recently this sober evaluation was against much of the received expert opinion, and down-played by some observers in the foreign affairs bureaucracy and the media. George Negus epitomised this attitude in introducing a segment on the USSR deal with Vanuatu: "It's a long time in this country since we've had a good 'commy' scare but one looks to be building up over the growing Russian presence and influence in, of all places, the South Pacific". However, if anything, Australian perceptions of the drift in the South Pacific have lagged behind developments. Most Australians were caught unawares by the election of the anti-ANZUS Lange Government and the subsequent virtual defection of New Zealand from the Western alliance. Vanuatu's increasing radicalisation, the Soviet fishing deal with Kiribati and the possible election of an anti-Western government in Fiji, are all elements of a new unwelcome slide in the South Pacific.

Of recent Soviet initiatives fishing deals are the most public and best-known—unlike the equally significant patient political cultivation of the Pacific islands' small elites. Moscow's aim has been to discredit the United States and the Western alliance while simultaneously upgrading its own presence. It is in this context that Moscow's fishing offers to the various micro-states in the region should be viewed—enhancing Soviet intelligence and communication capacities, increasing abilities to interdict vital sea lanes and increasing political leverage in the region.

The following are some of the recent developments which have harmed Western and thus Australian interests in the South Pacific.

New Zealand Despite a firming of Kiwi public opinion in favour of ANZUS, the Lange Government's hardline adherence to its barring of nuclear armed or powered ships has led to an official US cessation of intelligence and military assistance. Wavering only occasionally in its ban on Allied ship visits, New Zealand's attitude has sent waves throughout the region, particularly worrying the Polynesian States. The Cook Islands, afraid of being left unprotected, briefly declared itself "neutral". Prime Minister Sir Thomas Davis' point was vindicated when, without US intelligence, the Kiwis were said to be unable to identify a mystery submarine that surfaced off the Cooks.

Apart from the lack of such vital information the cost to a financially strapped Canberra of separate military exercises with the Kiwis is causing strain. During his December 1986 visit to New Zealand Foreign Minister Bill Hayden explicitly warned Lange that Australia could not continue to subsidise Wellington's defence.

Frank Corner, former permanent secretary of Foreign Affairs, who headed the recent Defence Policy Review, has bluntly claimed that "New Zealand's defence policy has effectively been hijacked by a small anti-nuclear lobby". Nonetheless it would be a mistake to see David Lange as a lone Don Quixote tilting against a US nuclear windmill. Last year's New Zealand Labour Conference demanded that the Soviet airline, Aeroflot, be allowed into New Zealand and the powerful Federation of Labour sent 12-16 delegates to the October 1986 Eastern bloc meeting of the Soviet-run World Federation of Trade Unions (WFTU).

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Kiribati The conclusion of a $2.3 million fishing deal between the USSR and the 62,000 people of Kiribati (formerly the Gilbert, Phoenix and Line Islands) was one of the most public manifestations of growing Soviet interest in the area. Adjacent to the US rocket splashdown zone at Kwajelin Atoll, Kiribati could assist intelligence gathering ships of the Soviet Pacific Fleet. Moscow regards the area as so important that vessels like the M.I. Nedelin are kept in the area for 6-8 months of the year. Prime Minister Tebai's determination not to expand the agreement to include shore facilities or port access probably made the Soviets' plainly non-commercial interests wane. Currently it seems that the USSR-Kiribati deal will not be renewed. Licences that worked out costing the USSR $850 per ton of fish caught were only worth some $700 per ton. Since attracting Soviet attention, however, Kiribati has been the subject of intensive political recruitment, with "delegates" continually invited to pro-Soviet political conferences in Australia and the region. Increasingly they have been guests in the Eastern bloc satellites where, like other third world delegates, they can undergo KGB evaluation, cultivation and recruitment.

Vanuatu Father Walter Lini's announcement that he would (in return for $1.3 million) grant Moscow not only fishing rights but shore access to Port Vila's deep water harbour, and also landing rights for Aeroflot, has raised alarm in other Pacific Islands. Vincent Boulekone, leader of the francophone opposition (UMP), has said that he would revoke the agreement, making it the focus of the election due in November 1987. Lini's government has opened relations with Soviet clients, Vietnam, Nicaragua and Libya. Non-resident Cuban diplomats from Japan and Australia regularly visit Vanuatu and the General Secretary of the ruling Vanuaku Party, Barak Sope, visited Cuba in September 1985 as Castro's guest. After meetings with Vice-President Carlos Rael Rodriguez and Jesus Montane, Sope was offered Cuban assistance with "training" for Vanuatu's police. Perhaps this is the kind of offer to which the Federal Government should make a counter proposal of police training in Australia.

But Vanuatu has apparently decided to look elsewhere for such training. After sending a message of support to Colonel Gaddafi following the US raid on Libya, Father Lini told a national Australian television audience that "we do not consider Libya a terrorist nation" as no one had "proven it in a court of law". Although cautioned by Vanuatu's President and Finance Minister that such stands might damage the country's status as an off-shore tax haven, Lini castigated the Australian media for the subsequent fall in tourism and business. This has not stopped Barak Sope sending off eight people to Libya for training as bodyguards for Vanuatu's ministers.

Sope announced that Vanuatu would soon permit the opening of a Libyan People's Bureau (Embassy) although this has apparently caused major division in the Vanuaku Party. Lini's pro-Libyan tilt is so extreme that he welcomed two
representatives of the tiny Australian People’s Congress, the pro-Gaddafi but white nationalist Queensland sect. Apart from Libya’s financing of and involvement in terrorism, the Gaddafi connection is important given the close Libyan liaison with the Soviet bloc, particularly East Germany.

Papua New Guinea Papua New Guinea’s transition from colonialism to independence has been a democratic success. Normal questions facing a transition from colonialism to independence has been a vexing problem from the point of view of Western interests and Australian national security. Regional, particularly Melanesian (PNG, Solomon, and Vanuatu), dislike of French policy in New Caledonia, together with the dissatisfaction of a substantial section of Melanesians (themselves a minority of 43 per cent) in New Caledonia (Kanaks), provides a lever for anti-Western interests. The two groups of Kanaks who were sent for military training in Libya in 1984 and 1985 are manifest proof of this. However, being a settler nation itself, it is difficult to see how Australia can support the disenfranchisement of the majority whites, Polynesians, Asians and some Kanaks who wish to remain part of France. Australia has and must continue to place our national security as the primary goal of Australian foreign policy. Moderate Kanak elements, such as FLNKS leader Jean Marie Tjabauo, should be encouraged, just as Paris should be pushed towards some local autonomy that would prevent a

Papua New Guinea  Papua, New Guinea’s transition from colonialism to independence has been a democratic success. Normal questions facing a developing economy and problems with “rascal” gangs have not impeded the smooth transfer of power after elections. The Wingti Government, like its Somare predecessor, is generally pro-Western although it has not permitted Guam based B52’s to fly over its territory. Until recently, because of doubts about its policy, US navy ships did not dock at Port Moresby. Somare’s then Foreign Minister Mr. Giheno, advocated a ban on nuclear warships. However most disconcerting for regional stability is the increasing Soviet bloc links with the OPM rebels fighting Indonesia on the PNG border. For the first time, in late 1986, OPM leaders, Seth Runkorem and Jacob Prai, were guests in Moscow.

Solomons Like most of the Pacific Islands, the Solomons under Prime Minister Sir Peter Kenilora are democratic and pro-Western. However following an incident with a poaching US tuna boat, Honiara barred US naval vessels and in an unfortunate if silly mimicking of New Zealand’s insistence that nuclear powered or armed aircraft or ships not visit her shores, the Solomons barred a US civilian Cessna aircraft which refused to “confirm or deny” that it was nuclear-powered or armed. The Solomons has the only Labour Federation in the Pacific that is openly affiliated with the Soviet-run WFTU.

Tonga Colonel Gaddafi has tried offering the Island Kingdom of Tonga an international airfield if it changed its foreign policy. More recently Libya offered unlimited free oil if Tonga would adopt an anti-Israel policy.

Fiji  Fiji, with its major international airport at Nandia, is (apart from PNG) the travel and commercial hub of the Islands. Prime Minister Sir Ratu Kamisese Mara lifted a ban on US ships visiting Fiji but the dramatic rise of the trade-union based Fiji Labor Party may see the defeat of the conservative Alliance Party. Canberra’s new upgraded commitment to Fijian defence is a constructive recognition of Fiji’s strategic importance to Australia. A consistently well-informed journal has pointed out that: “The Fiji Labor Party has adopted an anti-nuclear ships visits policy and this could be a problem for the US if the Labor Party was in office or forms a coalition with the opposition National Federation Party”. Timonici Bavadra, leader of the Labor Party, has said that, on election, he would “recognise the Soviet Union and ban port visits by American nuclear warships”.

Fiji’s central importance has seen it become the most intensive target of Soviet political cultivation. The Chairman of the Fiji Labor Party’s youth section was an official guest of the Young Socialist League (YSL) at its recent conference in Sydney (March 1986). This tiny pro-Soviet group was represented by YSL National Secretary, Dorothy Costa, at a Nuclear Free and Independent Pacific conference in Suva. Fijian delegates attended the twelfth WFYS in Moscow (April 1985); the eighth International Seminar on the Problem of Peace in the Pacific, at the Soviet submarine base of Nahodka in Siberia (June 1986); as well as WFDY and IUS meetings in Prague and Budapest (November 1986). Fijian Labor Party leaders, Krishna Datt and Mahendra Charechy, attended the October meeting of the Soviet-backed World Federation of Trade Unions. In smaller developing countries such unmatched influence peddling can have a decisive effect in shaping the foreign policy attitudes of the tiny numbers in local elites.

New Caledonia Although not an independent country, New Caledonia, officially part of France, constitutes a vexing problem from the point of view of Western interests and Australian national security. Regional, particularly Melanesian (PNG, Solomon, and Vanuatu), dislike of French policy in New Caledonia, together with the dissatisfaction of a substantial section of Melanesians (themselves a minority of 43 per cent) in New Caledonia (Kanaks), provides a lever for anti-Western interests. The two groups of Kanaks who were sent for military training in Libya in 1984 and 1985 are manifest proof of this. However, being a settler nation itself, it is difficult to see how Australia can support the disenfranchisement of the majority whites, Polynesians, Asians and some Kanaks who wish to remain part of France. Australia has and must continue to place our national security as the primary goal of Australian foreign policy. Moderate Kanak elements, such as FLNKS leader Jean Marie Tjabauo, should be encouraged, just as Paris should be pushed towards some local autonomy that would prevent a
revolutionary situation from developing. The bipartisan rejection by Messrs. Hayden and Peacock of French claims of interference should be supported just as the earlier tough decision by Australia's Foreign Minister to expel Kanak extremist Jean Peu after he attended a Libyan gathering of radical groups in March last year.

Conclusions

While Soviet encroachments in the South Pacific are not cause for panic, they do warrant serious concern. Trade unions, church and peace groups are being used as part of Moscow's strategy to increase its influence in the region. In particular should be noted Moscow's special emphasis on cultivating young leaders in the emerging Island states as the basis for a long-term strategy of winning the loyalty of persons of probable future influence.

All democratic institutions in Australia, all major political parties, moderate unions and civic groups should develop a role in public diplomacy with our near neighbours. Foreign affairs bureaucrats alone are ineffective and it should not be left to dogmatic Marxist factions or bizarre pro Libyan sects to seek out and befriend our near neighbours. Dominant moderates in the trade unions and ALP have a special responsibility to make up for the neglect of leaving Labor forums to unrepresentative individuals who do not reflect the fact that 75 per cent of Australians support the ANZUS defence alliance.

Both major political parties ought to regularly invite and subsidise their South Pacific counterparts' attendance at their major annual conventions. The Fijian Labor party, for instance, whether it wins the next election or not, would thus be exposed to some mainstream ALP views rather than meeting a highly selective viewpoint through the Pacific Trade Union Community or Soviet-run political conferences.

Vanuatu's radicalisation will only be halted by firm action. Moderate elements of the anglophone majority should be encouraged to abandon post colonial dislikes and join the francophone minority in opposing the Lini/Sope fraternity with Gorbachev and Gaddafi. Sophe appoints the key aides to Vanuatu's ministers and the moderate elements in Vanuatu with Australian support should seek to pre-empt him before he takes up the Cuban offer of police training. Otherwise we may well have another Grenada on our doorstep.

Australian policy makers may well want to reconsider the rigid recommendations of the Dibb Defence Review which would limit our aerial and naval intervention capacity to 1,000 miles, described as "the area of direct military interest". Australia should at least have the military capacity, including amphibious aircraft refuelling and basing rights, to intervene and militarily prevail to an area of 2,000 miles encompassing most of the South Pacific which Dibb describes as "the sphere of strategic interest".

Finally, the Federal Government's recent decision to reconsider aid cut-backs to South Pacific Forum States should receive bipartisan Australian support as it is in the direct national security interests of Australia.

NOTES
3. Testimony of Edward Baker Jr. Director of East Asia and Pacific Region, International Security Affairs, Department of Defence, before the US House of Representatives Foreign Relations Committee, 10 Sep. 1986. Rear Admiral Baker sets out a whole range of specific military advantages which would accrue to the Soviets from store facilities in one of the Island states.
4. Youth Voice, Jan. 1986 reports representatives of Kiribati were present at the November 1986 meetings of two important and notorious Soviet fronts, the Budapest based World Federation of Democratic Youth (WFDY), and the Prague based International Union of Students (IUS). Youth Voice is a newspaper of the pro-Soviet Socialist Party of Australia.

The Church's Crisis of Spirit

Ken Baker

"Peace and Justice" uttered repeatedly and collectively by countless church committees, says Fr. John Fleming, has become the mantra chant of the modern clergy. Ken Baker speaks with this forthright Anglican priest about the Church's involvement in politics, progressive clerics and the consequences of religious decline.

"He who marries the spirit of the age will be a widow in the next". The caution is one which Fr. Fleming believes many in the modern church have failed to heed. One consequence is that fellow clerics who in their eagerness to be "relevant" wedded themselves to the utopian causes of the '60s, now, spiritually exhausted, find themselves with little to say to the new generation of the '80s. Such are the costs of courting the inconstant Lady of Fashion.

There is an irony here. While the Church's quest for "relevance" has, if anything, accelerated the drift away from that institution, the priest of (notoriously) unfashionable views is apparently popular. His own red-brick church in the Adelaide parish of Plympton is attracting congregations larger and younger than one expects to encounter in these secular times.

Some of this is undoubtedly a spin-off from the regular column Fr. Fleming writes on religious affairs for the Adelaide Advertiser and even more so from his Sunday night job positioned behind a microphone at Radio 5KA, Adelaide's rock music station. Its an unlikely setting for a conservative priest but Fr. Fleming, clerical collar undone, loading tape cartridges while he talks, runs his programme like an old hand—which he is, having been in radio for 16 years. The programme is tight, paced to suit its predominantly under 30 audience. The talk-back is punctuated by the synthetic rhythms of Madonna or Billy Idol or some other of the new gods. The topics range from sex education in schools to Nazi war criminals in Australia. Fr. Fleming debates and jokes with, rather than consoles, his callers, making them find reasons to support their views. At times he feigns an opposing view for the sake of argument, but it's clear that his listeners know where he stands. He gives no encouragement to callers to phone him on air with their personal problems; the public media, he holds, are not the place for private confessions.

Fr. Fleming has never been hesitant in entering public debate on controversial issues. In 1980 he co-authored a book, Wake Up Lucky Country, which traced the course and impact of legislation on social issues, such as family law, abortion, euthanasia and censorship in the 1970s. The book's conclusions are highly critical not only of the governments which introduced such legislation, but of the church leaders who passively acquiesced and even rushed to greet the changes. Even now, he says, when the costs of the Family Law Act should be evident to all (Fr. Fleming cites the current divorce rate of 40,000 couples per year, the 50,000 children a year directly affected and the $1.2 billion per annum cost to taxpayers) a majority of members of the Anglican Social Responsibilities Commission continue to support the Act. Fr. Fleming is a member of this Commission, although not surprisingly he finds himself frequently dissenting from its statements. He is also Chairman of the Dietrich Bonhoeffer International Institute for Bioethical Studies and has co-authored a book on bioethics and a submission to the Senate Select Committee on Embryo Experimentation, which probably influenced its decision to oppose such experiments. In recent years he has fought strongly against the ordination of women in the Anglican Church, a movement which, he argues, exemplifies the dominance of contemporary sociology over orthodox theology in the modern church.

Thus for Fr. Fleming, standing apart from secular fashions does not mean withdrawing from the affairs of the world. The important question, he argues, is not whether the Church should be more or less involved in politics, but what sort of involvement it should have. He is influenced by the views of Dietrich Bonhoeffer, the Lutheran theologian who was executed in Germany in 1945.
for his opposition to the Nazi regime: "Bonhoeffer teaches that the role of the Church is to bring the State to an understanding of itself—that the authority it wields it wields under the sovereignty of God. According to Bonhoeffer, and it's a view with which I agree, the role of the Church is persuasive. But for some people in the Church, involvement in politics means the exercise of power, often as part of a political party. The Pope is right to censure this sort of political involvement by priests. A priest has authority to preach the word of God, but that carries with it no authority or wisdom in matters of economics or social and political organisation. Where the Church has gone down quite the wrong track is that instead of defending moral principles and attempting to persuade the State to adopt those principles in its formulation and implementation of public policy, it has attempted to write the policies themselves. Contrary to the assumption of some churchmen the Christian Gospel contains no blueprint for the ideal economic or social system".

To derive a socialist programme from the Bible, Fr. Fleming says, relies on a very selective and therefore dishonest reading of that text, a reading which ignores the place given by the Gospel to freedom and enterprise, competition and self-help. Nevertheless Church social justice agencies are often guilty of doing just that.

Fr. Fleming's view of the proper relationship between the Church and the State leads him to be critical of both the Christian Right—the Moral Majority, for example—and the Christian Left. Both extremes, he believes, have compromised their moral authority in order to involve themselves in the exercise of political power.

The ironical result is that clerics now speak out with "majesterial certainty about matters of con-
siderable ambiguity and complexity—such as economic policy—about which they have no particular expertise”, while at the same time “they speak with hesitation and doubt about doctrinal and moral matters central to the Christian faith, about which the Church is expected to have certainty and conviction. No wonder”, Fr. Fleming says, “the rest of society looks on bemused and confused”.

The Secular Church

Fr. Fleming argues that the outspokenness of Church agencies on disarmament and economic policy is an indication not of the growing influence of the Church on secular society, but of the growing influence of secular society on the Church.

Indicative of this trend is the tendency among numbers of clergymen to substitute their traditional vocabulary and its underlying value system for the jargon and values of the new moral counselors—social workers, psychotherapists and sociologists. From the “personal growth” movement of the ’70s, progressive clergy in effect adopted the injunction: “Thou Shalt Not say No”. It has produced, says Fr. Fleming, insipid clerics and absurd moral positions. “We are not allowed to say anything negative. We must, they tell us, always celebrate and affirm one another as persons. But how do you affirm someone as a person if you have to affirm something that they are doing which is destructive of them as a person?”

Progressive clerics, Fr. Fleming believes, seem to fail to realise that concepts absorbed from a secular value system may not only be alien to Christianity, they may actually be destructive of it. The concept of “sinful structure” with its odd conjunction of religious and sociological jargon is a case in point: “The idea that a social structure can be sinful”, Fr. Fleming argues, “is of course an absurdity... But beyond that, the use of the concept goes hand in glove with a refusal to accept the notion of personal sin, of accountability for one’s own actions... An unjust social system, premature toilet training, an educational system that is too disciplinarian—anything is to blame but me, the individual person. I find it an astonishing thing that the Christian tradition which is based on notions like personal accountability, original sin and the possibility of inner change is almost totally missing from the vocabulary of our social-worker oriented clergy who now talk about ‘sinful structures’—and of course want power to change the offending structures according to some utopian model they think will produce better people. Yet Christianity holds that better people are produced by individuals taking responsibility for themselves in relationship with God, with God giving them the freedom to change inwardly.”

There are other features of the secularisation of the modern Church to which Fr. Fleming points. While he is not opposed to modern liturgy, he is critical of the way in which new liturgies have often been implemented: “The emphases have all been on us and not on God; on community and the kiss of peace; on relevance and informality; and on trite ditties which are supine in the music and worse in the lyrics. No wonder that so many turn to Eastern religions for their incense, mysticism and sense of the transcendent”. Even the sermon, Fr. Fleming laments, is frequently “reduced to an uninspiring and simple-minded retelling of the Gospel for the day, or an exercise in the dissemination of clerical opinions about nuclear power or Aboriginal land rights”.

Consequences of Religious Decline

Sometime between when John Fleming first attended university in the early 1960s and the end of that decade belief in God was relegated from a popular topic of campus debate to the margins of student interest, and along with it went the great questions of the meaning of life and death.

What happens to a society when its religious underpinnings are severed? Does the rise of secular humanism produce a more humane, rational society and a more dignified individual, liberated from the burden of religious guilt? Or does it rather reduce man’s humanity by depriving him of a preordained place in the universe and by loosening the civilising restraints of a morality based ultimately on religious premises? Is the fear of damnation merely replaced by the threat of meaninglessness and the anxiety induced by moral and social disorder?

Supporters of the view that the decline of Christianity has fostered an increase in humaneness point to the growth of our social welfare system, our increased compassion for the plight of the disabled, the abolition of capital punishment in the penal system and corporal punishment in schools, the existence of whole new tribunals and commissions concerned with protecting human rights, the increased sensitivity to racial and sexual discrimination, the rise of animal liberation, anti-vivisection and so on.

This is not a view, however, with which Fr. Fleming agrees: “I see in the increasing concern
with animal welfare a society that has a higher view of animals than it does of humans. The anti-vivisection movement was just as strong in the Third Reich. I see a society which cares not one bit about the systematic destruction of unborn children yet pours thousands of dollars into foetal therapy... I do not think it is compassionate to produce laws which encourage marriages to dissolve and for children to be brought up without the presence of both parents. I cannot see that it is humane to construct a system of single parent pensions whereby young girls are encouraged to bring children into the world without reference to any man. I don't think it is humane that society has ignored the drug problem for as long as it has by giving softer and softer penalties to users when the reality is that users create the demand. I don't think it is humane to have a welfare system that creates dependence and the loss of self-respect which goes with it. Nor is it a compassionate society which predicates its education system not on a sense of achievement but on self-indulgence, that children should be allowed to learn at their own pace, whatever that may mean—and it may mean they don't learn at all.

"We are reaching a stage where other people don't matter very much, where all that matters is me—my gratification, my personal happiness—and whatever path I have to traverse to reach that happiness is not only all right, but I shall have social workers to affirm me as a person while I do it. This is the logical outcome when questions of right and wrong are treated as matters of personal opinion".

If we have not become more humane with the retreat of Christianity, I asked him, are we at least more tolerant? After all religious bigotry has been in the past and is today a source of great intolerance in the world. But modern tolerance, Fr. Fleming points out, is often two-faced. "If we have become more tolerant then it is a very selective tolerance, granted to certain minority groups, while at the same time it is withdrawn from others who then become the objects of greater intolerance. Homosexual activists, for example, demand tolerance of homosexuality, but at that recent homosexual book launch in Sydney, the use of the term "porcamadonna" demonstrated a blasphemous intolerance of Italian Catholics, to whom the term is highly offensive..."

The other side of the coin, he argues, is that much of what passes for increased tolerance is really moral insensitivity: the insensitivity of the parent who allows his child great behavioural latitude, when proper care would have demanded constraints. The permissive society, Fr. Fleming believes, is often a cover for this kind of moral indifference.

Future of Democracy

Fr. Fleming is disturbed by the prospect of a society in which the cultural basis of the liberal-democratic order is weak. In this regard the trends he observes in personal morality have profound and disturbing political ramifications: "It's only when people are convinced in their hearts and minds of the virtue of certain patterns of conduct, when there is an agreed morality, that society does not need policing from the centre. The more the cultural roots of the civilised society—and in our case this means Christianity—are sapped dry, with people no longer exercising personal responsibility or respect for the rights of others, the more Big Brother will take over the function of enforcing social order. The collectivist state ruling over the standardised society is an unhappy prospect for us all".

There is a base of optimism in Fr. Fleming's view of the future, however. Secularism, he believes, is irrational and terminal. People, he argues, have innate emotional-religious needs which must find an outlet. If denied expression in institutionalised religion, as is currently the case, they will find an outlet in sport or music or politics. It is no coincidence, he believes, that the rise of causes such as the anti-war movement, conservation, the anti-nuclear movement and so on arose at a time in the West when organised religion was undergoing a severe decline. But such causes are already burning out, leaving the new generation to grow up in what is almost a moral vacuum. The popularity of Pope John Paul's visit, Fr. Fleming believes, demonstrated that a Church leader preaching an orthodox faith can still attract large numbers of people. The challenge for the Church is whether it can provide the moral leadership capable of filling the vacuum. One thing is clear, it could use a large dose of the confidence and sense of conviction which Fr. John Fleming possesses.

A fuller exposition of Fr. Fleming's views is contained in his published lecture, "Religious Decline and its Consequences" available for $3 from the Secretary, Seminar on the Sociology of Culture, La Trobe University, Bundoora, 3083.
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SANTOS. TODAY'S AUSTRALIAN EXPLORER.
Adam Smith, the Father of Economic Freedom

Hal Colebatch

Adam Smith, known principally for An Inquiry into the Nature and Causes of the Wealth of Nations, remains probably the greatest name in philosophies of economic freedom, and of what today would be called economic rationalism. He was the first, and most timeless, philosopher of free enterprise and we are all his heirs.

In 1737, at the age of 14, Adam Smith, the son of a customs official, entered the University of Glasgow, one of the centres of the “Scottish Enlightenment”. He graduated three years later and won a scholarship to Oxford, which, compared to Glasgow, he found an intellectual desert. His copy of David Hume's Treatise of Human Nature was confiscated, but this seems to be the only interference with his intellectual development.

A brief outline of Smith's early life shows how rapidly in Eighteenth Century Britain a man of ability could rise. Smith entered upon the most productive part of his life in what must have been an exhilarating atmosphere of achievement, progress and enterprise.

He returned to Scotland and gave what would now be called adult education lectures in Edinburgh. At the age of 27 he was appointed Professor of Logic at Glasgow, from which he moved after a few months to the professorship of moral philosophy, a subject which included political economy.

The Wealth of Nations was to contain some pungent comments on tertiary educators and what is today taken for granted as the public funding of education:

"The endowment of schools and colleges have necessarily diminished more or less the necessity of application in the teachers. Their subsistence, so far as it arises from their salaries, is evidently derived from a fund altogether independent of their success and reputation in particular professions".

He described the time at Glasgow as the happiest of his life, lecturing from 7.30 am each morning to classes of students aged 14 to 16. His acquaintances there included James Watt, David Hume, and many great merchants, who were growing wealthy from the new markets that had opened up after the union with England in 1707, such as Andrew Cochrane, who founded the Political Economy Club. It must have been a great advantage to Smith to be able to supplement economic theory with such first-hand knowledge of trade. His first book, The Theory of Moral Sentiments, published in 1759, contained the statement he was to repeat in The Wealth of Nations, and for which he has become best known: that self-seeking men are led by an “invisible hand” and so “without knowing it, without intending it, advance the interests of society”.

Hal Colebatch is Editorial Director at the Australian Institute for Public Policy in Perth.
ADAM SMITH, THE FATHER OF ECONOMIC FREEDOM

The Theory of Moral Sentiments brought Smith to the attention of Charles Townshend, an amateur economist who happened to be Chancellor of the Exchequer and whose taxation policies eventually helped provoke the revolt of the American colonies. He employed Smith as a tutor to his stepson (perhaps he would have done better to have employed him as a tutor to himself), and during this time Smith began working on The Wealth of Nations. It was during this time also that he met Edmund Burke, Samuel Johnson and many others in the galaxy of great minds that laid the foundations for modern philosophies of freedom.

The Wealth of Nations was published in 1776. It broke new ground in explaining that the competitive market, and the liberty that went with the competitive market, led to an orderly society, and that pitting one man’s drive for self-betterment against another’s set up a mechanism for social benefit.

The market, Smith showed, tended to force the price of commodities down to their “natural” level related to their costs of production, and caused labour and capital to move to the most productive areas.

Smith’s analysis of the market as being automatically self-correcting was impressive enough in itself, but beyond this he showed that it promoted not merely orderliness but also economic growth. Efficiency, increased production, and hence increased demand for labour and increased wages would all be products of the “invisible hand”. This whole concept of economic growth and progress was a new one in Smith’s age.

Against Monopoly

However, Smith argued that this effect would only take place if governments did not cater to special privilege which would inhibit the benign effects of competition. Men did not, he argued, work selflessly for the common good, but advanced the common good as a by-product of their own efforts to make profits, if, and to the extent that, the market’s “invisible hand” was allowed to operate.

"The single advantage which the monopoly procures to a single order of men is in many different ways hurtful to the general interest of the country”.

Men did not, he argued, work selflessly for the common good, but advanced the common good as a by-product of their own efforts to make profits, if, and to the extent that, the market’s “invisible hand” was allowed to operate.

"Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it. But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer, and it seems to consider protection, and not consumption, as the ultimate end and object of all industry and commerce. Monopoly of one kind or another, indeed, seems to be the sole engine of the mercantile system”.

"The member of Parliament who supports every proposal for strengthening (a) monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more, if he has authority enough to be able to thwart them, neither the most acknowledged probity; nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of the furious and disappointed monopolists”.

As soon as The Wealth of Nations was published, its relevance to contemporary problems was recognised. Unlike many great books it attracted immediate attention and sold quickly.

The relevance, lucidity and obvious correctness of Smith’s arguments contributed enormously and directly to huge advances in material progress from this day forward. Though mercantilism of one sort or another has lingered as a belief among the economically illiterate, and the self-interested, it could never again, after The Wealth of Nations be an intellectually reputable doctrine in free and advanced societies. The selling of monopolies and restrictive licences still takes place, of course, but in
a somewhat shamefaced way, calling itself something else and pleading some special case or other.

Few if any philosophers can have contributed so much to the prosperity and enrichment of the human race. We are his heirs, both in the intellectual sense and because without the economic movement he created most of us would probably not be alive.

Adam Smith's achievement becomes yet more impressive when we consider that he wrote before the industrial revolution and the development of industrial capitalism. Part of the reason the arguments are still so relevant today, and appear so modern, is that *The Wealth of Nations* not only prefigured the Industrial Revolution, but to a large extent made it possible. It is easy to imagine that without Adam Smith we would still be in a pre-industrial society, living lives that would be, for the most part, very poor, nasty, brutish and short.

So pertinent to modern times is his work that it is with something of surprise that one recalls *The Wealth of Nations* was published more than a decade before the French Revolution, that the Scotland in which Smith spent his youth was yet to experience the Battle of Culloden, and that for most people life and standards of living had changed little since the Middle Ages. His writings, even on such matters as war and taxation are still full of relevance, not only in detailed arguments, but also in pithy aphorism. Here is a small sample of Adam Smith on protection:

"By means of glasses, hotbeds and hot walls, very good grapes can be raised in Scotland, and times the expense for which at least equally good wine can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines merely to encourage the making of claret and burgundy in Scotland?"

And here is Adam Smith on what would today be called National Economic Summitry:

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less render them necessary."

Relatively little is known about Adam Smith's personal life. He never married, and, apart from being kidnapped briefly by gypsies at the age of four (he would have made a very poor gypsy, a contemporary remarked), his life had few dramatic incidents. Only one portrait of him survives, a profile medallion. The first great modern economist was a man of enormous learning beyond economics. He taught literary criticism to James Boswell at Glasgow, and his own literary style attracted the praise of so majestic a stylist as Edmund Burke. In his writing he avoided both jargon and excessive use of batteries of statistics. He was no follower of the doctrine by which anything involved or unclear should be taken as profound.

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Apathy Before a Fall

Australia, the Worst is Yet to Come

by John Leard,
P.O. Box 149, Parramatta, NSW, 2150

Reviewed by C.D. Kemp

John Leard is one of a small breed of Australians—Hugh Morgan and Geoffrey Blainey are others—driven by a fierce indignation and love of country to speak out against those things they believe are undermining the prosperity and stability of Australia.

As a businessman Leard was brilliantly successful. He is now devoting his very singular talents and experience to exhorting his fellow Australians to act now to avoid the catastrophe which he believes is threatening us. The title of his book, The Worst is Yet to Come—a collection of his speeches and statements during 1985 and 1986—expresses an opinion with which this reviewer entirely agrees.

By contrast with Paul Keating who, in face of fearful month by month overseas deficits, assures us that the economy is “on track” to eventual recovery, John Leard sees “the track” leading straight to a precipice.

Leard sees the economy through the eyes of a highly intelligent businessman rather than through those of an economist and his diagnosis and prescriptions for our troubles have a refreshing bluntness and directness. His remedies for our present plight, which he perceives as desperate, could all be summed up in a sentence: we must all work harder, and longer, for the time being for less and less. If we refuse to do so, we will become a Third World country with our policies dictated by international financiers and the International Monetary Fund—a fate, in his opinion, worse than death.

John Leard has no confidence that the politicians of either party will succeed in getting this message across. Indeed he blames them (and in the case of the present Government because of its dominance by the trade unions) for Australia’s desperate situation. The cure will come only from a great groundswell of conviction on the part of the people themselves. To set this in motion the overriding need is for leadership to explain to the ordinary Australian the gravity of the crisis confronting us. His book attempts to give the leadership which the politicians of all parties are inexcusably failing to provide. “We need to realise that we are fighting for our lives. We are fighting for our Nation and we are fighting for our children’s future. Too many Australians don’t even realise that we have a fight on our hands”.

With these sentiments this reviewer would be in complete accord. The crisis this country is facing has not yet made its impact on the lives of the great majority of Australians who, consequently, and notwithstanding the ominously recurring messages conveyed by the bare economic statistics, still have a kind of “business as usual” or “she’ll be right mate” mentality.

When John Leard speaks of the need for harder and longer work he is not talking of any kind of work. He is referring to productive work, efficient work, in those sectors of the economy that can help to right the balance of payments and improve...
our living standards. He does not see the work of large parts of the public sector or the bureaucracy as falling within this category. Along with many others he wants a drastic reduction in government spending and in particular the welfare bureaucracy, whose functions should largely be restored to the traditional family and charitable institutions.

Nor is he enamoured of the contribution to our economy made by the “paper-shufflers”. “Fortunes are being made on the Stock Market and in big takeover deals which don’t create any new wealth, new prosperity or new jobs. Today we have brokers, merchant bankers, lawyers and accountants (who should be the servants of the wealth-creating organs) making more money while new wealth-creation is stagnant or non-existent...this is an unhealthy trend and cannot last”. It is a pity that he did not explore this development somewhat further and ask how far it has been made possible by the wholesale deregulation of the financial system and of the control mechanisms introduced after World War II which has followed the Campbell Report. The enormous accumulation of debt, national, corporate and personal, in recent years is now giving rise to fears among many thoughtful people about the soundness of the financial system.

John Leard reserves his strongest criticisms, however, for the trade union leaders who, he claims, are the real makers of policy in Australia today, policies which are “economically suicidal”.

“Our greatest need”, he writes, “is for trade unions to be compelled to obey the law. If governments cannot deliver on this issue we may well have to let the people decide this basic issue by referendum”.

Leard advances a whole host of remedies to avert the impending crisis. Among these are:-

- a freeze on parliamentary salaries and allowances;
- the elimination of indexed pensions for politicians: “It is completely inappropriate that the very people who fail to contain inflation should be the very first to be compensated for its effect”;
- assessment of the effect of indexed pensions for public servants on the future of the economy;
- restoration of the 40 hour week;
- abandonment of “flexi-time”;
- return to the “capacity to pay” concept as the basis for wage increases;
- a 12 months “freeze” on wages, and salaries above $400 a week and on directors fees, professional fees and dividends;
- elimination of the 17 1/2 per cent holiday loading;
- abandonment of penalty rates in the tourist industry. “The tourist industry can, I believe, become to the 21st century what the rural and goldmining industries were to the 19th century and what the resources industry has been to the 20th century”.

Those who, like this reviewer, view Australia’s present situation with the gravest concern, indeed with fear, would find it difficult to disagree with any of these proposals. Australia is not going to surmount its difficulties by Accords, or with J curves (on both of which John Leard rightly pours contempt) or by the superficial policies of politicians obsessed with winning votes, but will do so only by real sacrifices throughout the length and breadth of the community and the renovation of the economy from top to bottom.

But John Leard has little hope that the bold initiatives required will come from Canberra. The Prime Minister, he asserts “is really part of the problem rather than being part of the solution”. This, unfortunately, seems very close to the bone of truth.
Deputy Treasury Secretary joins the IPA

Des Moore, formerly Deputy Secretary to the Commonwealth Treasury, has been appointed to the IPA as a Senior Fellow.

Des Moore has an economics degree (from L.S.E.) and a law degree (from Melbourne). He has had extensive experience in advising governments on a wide range of economic and financial policy issues, having worked at a senior level in most areas of Treasury—the last five years as Deputy Secretary.

His resignation reflects his increasing concern over recent years at the failure of governments of both political complexions to frame policies that are in the longer term interests of the nation as a whole rather than some perceived short-term interest of the political party in office or of particular pressure groups within the community.

Des Moore believes that the increasing tendency for public servants to accommodate their advice to perceived political “constraints” has added to the need for outside, independent bodies (such as the IPA) to focus public attention on the longer term national interest.

He argues that, especially in an increasingly competitive world, this will require a reduction in the size of government and the application of market principles in product, financial and labour markets.

He has recently spent four months at two American “think-tanks”, The Heritage Foundation and the American Enterprise Institute.

IPA (NSW)

Gerard Henderson has been appointed Director of IPA (NSW).

He was formerly the senior advisor to the Leader of the Opposition, Mr. John Howard.

Gerard Henderson has extensive experience in the area of industrial relations being a former executive officer with the Department of Employment and Industrial Relations. He gave currency to the term the “Industrial Relations Club” in a 1983 article of the same name published in Quadrant.

He also has a strong interest in the development of defence and foreign affairs policies.

IPA States’ Policy Unit

Peter Rowe has been appointed Research Assistant to Les McCarrey, the Director of the IPA States’ Policy Unit in Perth.

Peter Rowe, a graduate in Arts and Commerce from the University of Western Australia, was Principal Research Officer to the Western Australian Parliamentary Public Accounts Committee for 14 months. Prior to this he worked for the Western Australian State Treasury for two years.

Peter Rowe’s experience with the Parliament will provide the States’ Policy Unit with an additional perspective on the financial management, operations and accountability of State Governments in Australia.

He believes that while Governments have the machinery to analyse critically their policies and performance, in most cases they fail to do so. This is most noticeable in areas which, though electorally popular with specific interest groups, are not to the benefit of the States or nation as a whole.
Christmas Bowl Article Generates Debate

Peter McGregor's article, “Why I Won't Be Giving to the Christmas Bowl” has caused widespread comment within the churches and the media.

The article appeared in the Spring edition of the IPA Review.

Peter McGregor argued that some of the Christmas Bowl money was used to support political causes overseas.

A confidential document attacking the article was distributed in some churches, and a number of church leaders have issued a statement defending the Christmas Bowl against Peter McGregor's criticisms. Both The Age and The Bulletin have run reports on the controversy.

The Reverend Dr. John Williams, a Uniting Church Minister, said that the critics of the article had failed to address the substance of McGregor's analysis. "McGregor has done a great service in bringing to the attention of the public the way funds from the Christmas Bowl were being used to support extremist political groups and views".

IPA Annual General Meeting

The IPA Annual Meeting in October was well attended by over 170 people. The President of the IPA, Charles Goode, said the IPA had had a very successful year and was being widely recognised as a leading proponent of free enterprise.

John Gough, Managing Director of Pacific Dunlop was the guest speaker.

The speech entitled “Going for Broke, or Going Broke” can be obtained from the IPA. An excerpt was published in the last IPA Review.

What the Press Say...

“The IPA Review, the quarterly free enterprise journal of the Institute of Public Affairs in Melbourne, gets better and better.”

(The Australian, 8 December 1986.)

“In Melbourne, the Institute of Public Affairs, founded in 1943, has recently come into prominence with its revamped quarterly IPA Review, a popular magazine committed to both market liberalism and moral conservatism”.

(The Wall Street Journal, 3 November 1986)

“... spending by Federal State and local governments was now a record 43 per cent of the nation's gross domestic product. It should be cut to about 35 per cent.

Mr. McCarrey, Director of the States' Policy Unit of the Institute of Public Affairs, said that taxpayers were not prepared to fund the current level of Government spending”.

(The West Australian, 6 November 1986)

“Peter McGregor wrote a scathing attack on the philosophy of the administration of the Christmas Bowl which was published in the influential Institute of Public Affairs Review”.

(The Bulletin, 23/30 December 1986)
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