

# IPA REVIEW

- 41 **EDITORIAL:—**  
**The Art of the Impossible**
- 45 **Judgement on the Budget**
- 51 **Wage Fixing**
- 57 **Creeping Socialism in the World  
of Finance**

## COUNCIL OF THE INSTITUTE

J. S. BALDERSTONE, (President)  
SIR WILFRED BROOKES, C.B.E., D.S.O. (Immediate Past President)  
J. A. LECKEY, (Chairman-Executive & Editorial Committee)  
D. M. HOCKING, (Chairman-Editorial Sub-Committee)  
HUGH M. MORGAN, (Treasurer)  
L. C. BRODIE-HALL, C.M.G.  
PETER R. BUNNING  
SIR PETER DERHAM  
D. L. ELSUM  
SIR FRANK ESPIE, O.B.E.  
A. GIBSON  
C. B. GOODE  
SIR ANDREW GRIMWADE, C.B.E.  
J. A. HANCOCK, O.B.E.  
SIR JOHN HOLLAND  
DENYS I. McCULLOUGH  
SIR JAMES McNEILL, C.B.E.  
W. D. McPHERSON  
J. L. NAVE  
G. M. NIALL  
HILTON J. NICHOLAS, O.B.E.  
SIR IAN POTTER  
NORMAN N. ROBERTSON, C.B.E.  
NORMAN SAVAGE  
B. A. SIMPSON  
J. H. VALDER  
HON. VERNON WILCOX, C.B.E., Q.C.

## EXECUTIVE AND EDITORIAL COMMITTEE

J. S. BALDERSTONE, (President)  
SIR WILFRED BROOKES, C.B.E., D.S.O. (Immediate Past President)  
J. A. LECKEY, B. COM. (Chairman)  
D. M. HOCKING, M.A., LLB. (Chairman-Editorial Sub-Committee)  
HUGH M. MORGAN, (Treasurer)  
PETER R. BUNNING  
D. L. ELSUM, B.E.E., B. COM., M. Sc.  
SIR FRANK ESPIE, O.B.E., B.E.  
DENYS I. McCULLOUGH, B.E. (Aero)  
NORMAN N. ROBERTSON, C.B.E.  
HON. VERNON WILCOX, C.B.E., Q.C.  
G. P. HAMPEL, B.A. (Director)  
C. D. KEMP, C.B.E., B. COM. (Consultant)  
J. ABRAHAMI, M.A. (Consultant)  
T. C. WILSON, A.A.S.A. (Snr) A.C.I.S. (Administrator)

## LIFE MEMBERS OF I.P.A.

W. A. INCE, C.M.G.  
E. A. JONES, C.M.G.

## OBJECTS

The Institute of Public Affairs is a non-profit, educational organisation financed by business enterprises and people throughout Australia to study economic and industrial problems. It was launched in 1943. The basic aim of the I.P.A. is to advance the cause of free business enterprise in Australia. In pursuit of this aim it is endeavouring: —

1. To inform the Australian public of the facts of our economic system and to raise the level of economic literacy in Australia.
2. To work always for a full and friendly understanding between employers and employees and for good relations throughout industry.
3. To study the means by which private business enterprise can be made to operate better in the interests of all sections of the Australian people.

---

# IPA REVIEW

JULY/SEPTEMBER 1981. Vol. 35 No.3

Institute of Public Affairs 401 Collins St. Melbourne 3000 Tel. 61 2029

## Editorial —

### THE ART OF THE IMPOSSIBLE

**Western nations are becoming ungovernable. This commonplace assertion means that, in practice, the extent to which democratic governments can govern appears to be severely limited, as recent local examples show. Thus, the urgent need now is not to indicate correct policies, but to devise politically acceptable means of putting them into effect.**

Nowadays, it is by no means uncommon to hear assertions to the effect that Western economies are doomed. To Marxists such a view is old hat. It has for long been their conventional wisdom that time was on their side, that all the Communist world had to do was to sit back and wait for the eventual collapse of the West.

For much of the post-war period it looked as though new, enlightened policies on full employment, real economic growth and so on, had effectively controverted the old Marxist dogma. Yet it is now coming to be shared by others. The argument is that Western economies possess in-built "self-destruct" characteristics, albeit usually slow-acting ones. For instance, the apparently inexorable increase in public sector spending, which often seems to be inversely proportional to its benefits, pre-empts ever more of the nations' wealth, while obstructing the creation of this wealth. The truly remarkable achievement of free enterprise is that living standards have generally been rising, in spite of this massive and growing obstruction; although one might well speculate on how much better off the peoples of these nations would have been without it.

To a considerable extent, the political counterpart of this prognostication of economic doom is the assertion that Western nations are becoming ungovernable. This means that governments are unable, or feel themselves to be unable, to put into effect desirable policies, even though they know very well what those policies are. The impediments to effective action are considered to be so great as to be virtually insuperable by democratically elected

governments: politically and economically, drift becomes enshrined as "policy". Inaction becomes statesmanship.

Until about ten years ago, Australia's economic experience had been perhaps somewhat easier than that of similarly developed Western nations. Prosperity, real growth and full employment were taken for granted. Economists predicted disaster on the strength of two or three per cent annual inflation. All the Federal Government had to do was, broadly, to leave the economy alone. Its ability to shepherd the economy through serious economic difficulties was never seriously put to the test. The degenerative drift was slow and therefore neither too obvious nor too painful. It was overlaid by the intellectual soporific of optimism: but it was there.

It took the economic carnage of the Whitlam years to turn a gently drifting (but, to the more perceptive, ominous) tide into the full flood of disaster. This flood the present Government was elected to stem. The limited success of economic management over the last five years or so, in spite of often laudable efforts, are an indication of the constraints, actual or illusory, which beset present-day governments, not only here, but in the Western world as a whole.

Among recent local examples of constraints on effective action by governments, three stand out. The first requires at the outset, that generous praise be given to Mr. Fraser and his colleagues. With the proposals of the so-called "Razor Gang" they took a courageous step in implementing the policies for which they were elected in 1975. Nevertheless realities must be faced. These proposals will do little to lessen the nation's tax burden or the oppressive size of Big Government.

Secondly, the conference of State Premiers earlier this year showed how difficult the Federal Government finds it to impose any kind of restraint on irresponsible spending by the States. In the ten years to June 1979, employment for which the States are responsible rose by a staggering 66 per cent, in spite of which the Premiers went to Canberra with demands for a two per cent increase in funds in real terms (of course, it might be argued that the "services" offered by the States have greatly improved, but on outward appearances this is at least debatable). By contrast, the Federal Government has only increased employment in its sphere of responsibility by 25 per cent in the same ten year period. This is by no means to whitewash the Federal area, from which much fat could doubtless still be trimmed.

The third example is provided by the Budget for 1981-82. This is discussed more fully in the following article, and two points will suffice here. In spite of being the work of a government dedicated to individual freedom, enterprise and initiative, personal income tax is budgeted to rise by 19 per cent, that is, over 8 per cent in real terms. Further, in spite of being the work of politicians dedicated to small government, outlays are budgeted to increase by 12.6 per cent, or almost 2 per cent in real terms.

The Government remains a prisoner of circumstances which seem to be virtually certain to perpetuate present economic ills. The sheer preponderating size of the public sector, in relation to the productive free enterprise sector which supports it, will ensure that strong inflationary pressure continues. This might be seen as “base-load” inflation, on which such factors as capital inflow and wage pressures now threaten to build, unless restrained.

Thus, if the fight against inflation is to remain central to the Federal Government’s strategy for the restoration of economic equilibrium (and it is elsewhere argued that it should) then public sector expenditure simply **must** be cut. The attack should be not only on the Federal Government’s direct spending, but also on that of the States, which have been demonstrably more profligate over the last decade. Whatever one might think of the desirability of separate State governments on political grounds, their own powers and their financial relationship with the Federal Government certainly seem to render properly frugal public spending next to impossible in this country.

Hence it is now, more than ever, important to concentrate attention on spending by the States. Some official awareness of the problem has recently emerged and Victoria has undertaken an important inquiry into a section of its statutory authorities. Nevertheless, as things stand the likelihood of significant economies by the States as a whole appears remote. Similarly, recent events have shown how hard it is, at the Federal level, to make serious inroads into Big Government, let alone to reverse the upward trend. This is true even for a government committed to this task.

In the quest for an attenuated public sector, certain things are by now obvious. First, clarion calls for public morality have no chance against the realities of, for instance, excessive taxation. Secondly, fiscal moderation has no chance against the realities of political expediency. And finally, as the Razor Gang’s report and the Budget now show, proposals for public economies have little chance against the Federal-State pork barrel.

The problems facing the economy are by now well delineated. There is even a fair degree of agreement on desirable solutions, though frequently fudged over for doctrinaire or political reasons. There are often constitutional or structural, as well as political barriers in the way of giving effect to desirable policies. Hence, the urgent need is to find practical ways of eliminating or circumventing these barriers. New proposals to this end must, first, be capable of achieving the desired result. Secondly, they should at least be politically bearable. Thirdly, they should, if outside the political arena, involve a minimum of financial risk (for instance, no firm should be expected to bear alone the full brunt of attempting to counter outrageous industrial blackmail). Finally, in whatever sphere these solutions might be, they should make the minimum possible demands on that scarce commodity, intestinal fortitude.

Three instances (the Razor Gang, Federal-State finances, and the Budget) of the

---

difficulty experienced by government in turning policies — even those which are also electoral pledges — into action have already been mentioned. There are many others, often inter-related, in which the problems are well known. In these, it does seem that closer attention to ways and means might be well worthwhile in easing the impediments to action.

Among these areas of difficulty might be mentioned (apart from such broad questions as excessive legislation and the control of inflation), bureaucratic growth, the so-called “qangos”, superannuation, union power, the Pork Barrel, welfare spending, taxation and many others. Some of these are already seemingly in the “too-hard” basket, while the importance of others seems so far scarcely to have been realised.

In making this plea for a more practical approach to the nation’s problems, there is no intention to claim complete originality. Over the years the Institute, and, to their credit, many others have been prepared to think constructively and practically when suggesting policies. However, there has also been a depressingly widespread propensity to tell governments, State or Federal, what should be done without realising fully the forces militating against constructive action. What is suggested is a new emphasis on the practicability of proposed action, with more thinking people pretending to be in politicians’ shoes. Only thus will we, as a nation, be able to drag politics back from the brink of becoming “the art of the impossible”.

---

# JUDGEMENT ON THE BUDGET

The Budget is, on the whole, commendable. But it is over-cautious: the mammoth budget surplus (domestic) of \$1542 million might have been \$500 million less, and expenditure \$500 million less, giving some scope for personal tax reductions. This would have helped to head off the threatened explosion of incomes and would have made the Budget more acceptable to the mass of Australians.

What judgement is one to make on the budget?

One prominent critic described it as “the worst in thirty years”. Another said it ranked among the best of the last decade. When “expert” opinion differs so widely, what is the man-in-the-street to think? — it seems almost a case of one view being as good as another.

The former assessment can be dismissed as totally absurd — even if the near insane budgets of the Whitlam years, in which most of our present troubles have their roots, are left out of the accounting. The latter, in our opinion is not far from the truth. Unfortunately, the 1981 Budget, which could have been right up among the best since World War II, is marred by one serious flaw which might fairly easily have been avoided.

The flaw can be traced to the latter-day obsession with the so-called money supply (M3)\*, the belief that if the increase in M3 can be held to a set figure everything else will fall into place, surely a highly simplistic view of the task of economic management. This has led the Government to budget for a mammoth domestic surplus of over \$1,500

million. In doing so it has severely limited its scope for making the tax reductions which it has repeatedly claimed to be necessary to a more productive private sector and to the realization of its philosophic principles.

A budget has, or should have, three dimensions — the economic, the political and the human — all necessarily inter-related. The 1981 edition, whatever else may be said of it, a highly responsible document, is fairly strong on the first count and, having in mind the election in 1983, possibly on the second: although that, of course, remains to be seen. It fails badly on the third count.

In shaping a budget, the dictates of sound economic management are, of course, supremely important and, for the most part, must be observed by any Government which claims to be responsible. But human needs and attitudes among the mass of people, even though they may conflict to some extent with strictly economic requirements, cannot, or rather should not, be wholly ignored by the budget-makers.

Because, in this case, the human dimension has been overlooked — perhaps it was

\* M3 is the total of currency in circulation and deposits in trading and savings banks.

never even thought of — the reaction to the Budget of the man-in-the-street, one might say 9 out of 10 Australians, has been highly unfavourable. The spectacular domestic surplus of \$1,542 million, may commend itself to the more cautious among the economics fraternity but it means little or nothing to the uninitiated. What is of great concern to the ordinary man, battling to make ends meet, is that, overnight, he finds himself confronted with the prospect of even higher taxes. Moreover, this new burden has come at the precise time when he is facing additional strains on his personal budget from steeply rising interest rates, increased electricity charges (in Victoria, a mere 20 per cent) increased local and water rates and higher charges for health insurance. And, although he may not be aware of it at the moment, there is the near certainty that he will shortly be paying more for telephone and postal services because of the budget provision that Australia Post and Telecom will now be required to pay 10 per cent interest (as against the present 5.2 and 6.9 per cent respectively) on outstanding capital advances from the Commonwealth. (This will add \$120 million to the budget of these authorities in a full year).

Altogether, it would be hard to imagine a more unpropitious time for a Government to slam the people with higher taxes. One is tempted to put it down to the notorious remoteness of the Canberra mind — both bureaucratic and political — from the ordinary everyday concerns of the mass of Australians. The increase in taxes — which means that the total Commonwealth tax take, as a proportion of GDP, is now the

highest in Australia's history — is, however, surely inexplicable in view of the Government's professed philosophy and repeated undertakings to lighten the burden of taxes so as to provide the people with greater freedom of choice in the spending of their hard-won earnings. Whatever has happened to the liberal faith among the Liberals themselves?

Let us here avoid any misunderstanding. The I.P.A. is not opposed to the movement toward an across-the-board expenditure tax implicit in the decision to increase sales tax by 2½ per cent and to apply that amount to a wide range of goods at present exempt. Indeed, we welcome it: on many occasions in recent years we have argued strongly in favour of just such a measure. But the overriding purpose of an expenditure tax is surely to lighten the burden of direct taxes by permitting complementary reductions in personal income tax. This, the Budget fails to do. Indeed, in spite of the half indexation adjustment to the rate scales and to dependant rebates (which will cost the Government \$495 million in 1981/82) PAYE taxpayers, because of inflation, will pay over 20 per cent more per head of population than in 1980/81. Revenue from PAYE tax will increase by a massive \$3,135 million. The Government did the right thing in introducing what amounts to an across-the-board expenditure tax: indeed it represents the most significant tax innovation for many years and is the outstanding feature of the 1981 Budget. It did the wrong thing, for a variety of reasons, in failing to compensate for this increase in taxation by providing for at least a first instalment of a real reduction in



personal income tax. This would not only have given a more human face to the Budget and thus have avoided much of the criticism that has been directed at it, but would, in our judgement, have had advantages from the standpoint of economic management.

The tragedy is that personal taxes could have been reduced in a way that would not have been inconsistent with the Government's major objective of restraining inflation. Indeed, it would most likely have assisted in the achievement of that objective. What has prevented it is the Government's obsession with the size of the budget surplus and the 1983 elections.

The Government clearly set out to come up with something spectacular and it certainly succeeded — an unprecedented \$1542 million. Had the Government been satisfied with a mere \$1000 million — and this was the figure widely canvassed in informed economic and financial circles — it would have been possible to knock some \$500 million of the personal income tax take. Considered against a total personal tax take of some \$20,000 million, \$500 million is hardly exciting — a mere 2½ per cent. But in a budget of around \$40,000 million, it is difficult to believe that the Government, committed to reducing expenditure, could not have found economies of an additional \$500 million. This would have enabled personal taxes to be cut by \$1000 million (5 per cent) and would have represented a handy first step toward its objective of lightening the tax burden. Economic equity would suggest that this reduction should be concentrated overwhelmingly on the lower and middle income PAYE

taxpayers.

Had this been done, along with hints of better things to come, much of the ire which the Budget has aroused among the mass of Australians would have been at least tempered and possibly avoided. And, in our view, the Budget would have ranked among the best of the entire post-war era.

Why was it not done?

Among the considerations which seem to have influenced the decision to budget for a domestic surplus of \$1542 million, one — and we believe it to be the main one — is that the Government, for reasons of political advantage, preferred to defer income tax reductions until the 1983 Election looms on the horizon: be mean now so that we can be generous later. This is of small comfort to the majority of Australians who are facing pressing immediate financial problems and who, in any case, have, on the record, good reason to be cynical about Government promises, let alone hinted intentions, on future tax reductions. Cold political calculation has clearly powerfully influenced the economic rationale of the Budget. Politics aside, the Government might well have been content with a smaller, though still very substantial, surplus and consequently with less rigorous restraints on economic expansion and thus on profitability and employment.

With wages and inflation threatening to accelerate (against a backdrop of slowing world inflation) and with interest rates soaring to record levels, the Government was entirely right in introducing a severe, even tough budget. We have no quibble over the general thrust of the Government's

economic policy which, to its great credit, has helped to put the economy back on the growth path, restored business profitability and investment, led to higher real wages, and encouraged overseas financial interests to invest record sums of money, thus displaying confidence in the future of Australia. Nevertheless, it could be argued that a smaller budget surplus, with reductions in income tax, would have served the Government's purpose equally well, perhaps even better. Many economists, indeed, have expressed fears that the budget is too contractionary: there has been talk of over-kill. Whether or not those fears are justified, there is no magic in, certainly no mathematical basis for, a figure of \$1542 million. The appropriate size of the surplus is a matter of personal judgement.

The all-important purpose of economic strategy at present — and this comes out repeatedly in the Budget Speech and in the supporting Treasury Papers — is to head off the threatened wage explosion, and thus of other incomes. In order to achieve this the Government is continuing to pin its faith to monetary and fiscal measures which, by curbing demand pressures, will make it more difficult for employers to conclude inflationary wage agreements and for unions to press for higher rewards for their members. But is that line of policy, by itself, likely to be sufficiently effective? There is little in the recent experience of this and other countries to suggest that it will be. Despite the adoption of strict targets for the growth in the money supply, which, to have any chance of realization, have to be supported by tough fiscal measures, wages and other

incomes have continued to soar far beyond productivity improvements and inflation to run at levels often in excess of 10 per cent. The monetary targets (which, in the event, are invariably exceeded) are set at levels which usually approximate the expected rate of inflation. This suggests that they are calibrated to the anticipated increase in prices rather than to levels calculated to reduce the rate of increase in prices.

For some years now the I.P.A. has argued that budgetary and monetary policies are largely powerless to control inflation in the absence of measures designed to operate directly on the level of incomes. One of the obvious steps is to increase take-home pay, not through wage increases but by reducing rates of personal income tax — the greater the reduction the better. We believe that a budget which made a start in this direction would be much more effective in lessening the pressure for wage increases, and therefore more likely to achieve the Government's prime purpose of restraining inflation, than the Budget which has been brought down. With that qualification — a vitally important one — the Government deserves commendation for what is, without question, a highly responsible budget. There have been too many examples in the not-so-distant past of irresponsible budgeting that it would be churlish not to concede that the 1981 version has many merits.

Some will say — and have said — that the Government should have made a bigger effort to cut its expenditure (which will continue to increase in real terms) and consequently the public sector claim on resources; that this is really the only way to

tame the monster of inflation.

Probably it should, but it is only fair to add that that is anything but easy to do in a welfare-minded community where everyone (including many businesses) have come to think that they are being harshly treated. There are also increasing demands for Defence. Few would argue against that. And then there are the States. The problems involved in reducing government expenditure are exacerbated in a Federal system in which the States are continually snapping at the heels of the master to persuade him to toss them more biscuits. On the figures the Commonwealth is able to claim that there has been some reduction in the claims it makes on resources from the high point reached in the Whitlam years and has suggested that further reductions — albeit gradual — will be possible as the economy grows.

However, no one should necessarily be satisfied with that. Apparently the Treasury itself is far from content. There is an intriguing sentence in Statement 2 of the Budget Papers which whets the intellectual appetite but, regrettably, refrains from satisfying it.

“The total public sector’s **expenditure on goods and services** has declined slightly as a proportion of GDP since the mid-1970s — almost entirely because of a declining Commonwealth share — but that proportion remains well above what it was in the 1960s and early 1970s, when private sector activity was last expanding strongly and when in any case the subsequent march

of events may suggest, with hindsight, that the proportion was already too great to be sustainable over the longer term.”

Perhaps this may be taken to mean that when governments spend more than about one-third of total national expenditure, inflation is the inevitable consequence.

The one way that really large-scale economies could be effected would be by major changes in the now broadly accepted patterns of Government expenditure — as examples, the re-introduction of fees for tertiary education and the elimination of virtually free pharmaceutical benefits. But would the Australian people be prepared to accept such far-reaching structural changes, desirable though they may be? One thing the Government should do — and in which it should be followed by the States — is to reform the infamous superannuation benefits which are now enjoyed by Parliamentarians and bureaucrats, and which are certain to make monstrous demands on Australian taxpayers in the years ahead.



For some years now, the Budget has been accompanied by a vast mass of statistical information and of intricate economic analysis and explanation — prepared no doubt, in the main, by the Commonwealth Treasury. All this reflects great credit on those responsible and is certainly of immense value to the relatively few people whose business it is to try to understand all the complex inter-relationships of an economy which seems to be becoming progressively more complex.

The Budget supporting papers being, of necessity, highly technical are, of course, double Dutch to the man-in-the-street, as is for the most part even the Budget itself. Indeed, the fearsome size and technical complexity of the analytical information designed to explain and support the Budget can bewilder even the experts whose job it is to assess its merits and demerits.

The decisions embodied in the Budget impinge, in a variety of ways, on the lives of all Australians and consequently are of deep significance to them. (No doubt it has come to be invested, in their minds, with even greater significance by the media which has turned that fateful Budget Day in August into an economic and financial spectacular which rivals, if not in enjoyment, then in importance, Grand Final Day of the Victorian Football League). The trouble is that the Budget has become so esoteric, so highly complex, that probably not one in a thousand Australians can hope to reach any worthwhile judgement on its merits or otherwise. How many, for instance, even know what GDP is? And the media experts, competing with one another in demonstrating their technical virtuosity, are not of much help to the great mass of the community. The Budget becomes good or bad to most Australians only insofar as it directly affects, for better or worse, their own personal interests and finances.

Perhaps some attempt should be made to give the Budget a human face. In addition to the official, necessarily technical present-

ation, incomprehensible to all but a few, it might be worthwhile considering a kind of brief popular edition within the compass of the understanding of ordinary interested people lacking technical know-how. Otherwise, even the more highly intelligent members of the community are likely to make quite wrong assessments about the worth of the Budget and its creators. The purpose of such a popular edition would be, to use the words of the great Sir Francis Bacon, "to try to take the mystery out of things."

Indeed, an exercise of this kind might have advantages not only for the people but for the budget-makers themselves. There is always a danger that technical expertise can over-ride common sense. If the budget can be reduced to human terms, it may just conceivably lead to more human and better budgets and, for instance, avoid the errors of judgement to which we have drawn attention in this year's product.

There is much talk these days about the ideal of "freedom of information". But what if the information, comprehensive and voluminous though it may be, is in a form which no one but an intellectual elite of economic experts can hope to understand?

These comments are not made facetiously or lightly. They are made in all seriousness. Budgets after all, are for the people; they affect in highly significant and intimate ways the everyday lives of the people. The people are surely entitled to know what they are all about.

---

# WAGE FIXING

The failure of wage indexation does not necessarily mean the demise of the wage fixing machinery to which Australia has become accustomed. However, although general collective bargaining may still be a long way off, a trend in this direction should progressively relate wages more closely to economic realities. Some suggestions are offered as to how employers might prepare for such a changing industrial environment.

## I INTRODUCTION

The remarkable thing about the wage fixing machinery in this country is not so much that it can, as at present, degenerate into a fair degree of chaos and uncertainty, but that it can ever be made to work well at all. The Institute is not, within the compass of a short article, attempting to come up with instantly effective solutions in this complex area, which has long taxed the patience and ingenuity of all concerned. Still less does it intend to advocate wild, draconian or unrealistic measures, unacceptable to a society claiming to be moderately free and democratic. Rather, it sees the need to suggest lines of action in industrial relations conducive to the improvement of stability, harmony, productivity, profits and not least, real wages. These reinforce each other when moving in the right direction and destroy each other when not.

## II BACKGROUND

Consider, for a moment, the principal components of the "system". There is the arbitration machinery, divided between the Commonwealth Conciliation and Arbitration Commission, and serving similar purpose in each of the States, a variety of tribunals,

commissions, boards and arbitrators. Appearing on behalf of about 3 million union members are officials of over 300 unions, almost half of which have less than 2,000 members. Craft, industrial and general unions, on the British model, cut across industries, added to which some are Federal unions, some are State and some are in between. In contrast to the formidable industrial clout of the unions, a bewildering array of employer groups have little, individually or collectively. A final component is frequent intervention from the Federal Government on behalf of the "public interest".

The Commonwealth Arbitration and Conciliation Court came into existence in 1904 and began to relate wages (the basic wage of the famous Harvester judgement of 1907, forty-two shillings for a six day week) to prices in 1913. With some important changes in concept (for instance, in 1934 the "needs" basic wage replaced "Harvester" plus loading), cost-of-living adjustments (quarterly from 1921) to the basic wage continued until 1953. From that year separate hearings were conducted into the basic wage and margins until, in 1967, the Commission acceded to employers' requests for a total wage. In April 1975

indexation (total or partial) was once again instituted and continued until 31st July this year.

Obviously, there is much more to the process of wage fixing than the bare facts set out above. Above all, the efficacy of the arbitral machinery has always depended on a high degree of consensus among the parties, not so much in accepting the outcome of a particular case, but in accepting that arriving at an agreement through the centralised machinery was the sensible and desirable course, facilitating orderly, if unspectacular, growth.

For this confidence, there were good reasons. Over the first fifty years of the century, inflation was only slightly over two per cent a year. Taxes, particularly those on personal income, were low by present standards for ordinary Australians. Government spending (except, obviously, in time of war) was not then an insupportable burden on the community, either in terms of its cost or its damaging effect on enterprise and productive activity. Of course without the Depression, with all its human and material devastation, inflation over this half century would probably have been a little higher, perhaps three per cent or so a year. But it still would not have been high enough by itself seriously to damage confidence in a wage fixing process centred on quarterly cost-of-living adjustments of the basic wage. Similarly, the Federal and State arbitration machinery could survive in conjunction with a union structure scarcely suited to it, because its operation was never put under serious pressure.

### III THE TEST OF CONSENSUS

In 1953, automatic cost-of-living adjustments to the basic wage were abolished and the rate of wage and price rises fell back to low pre-“wool boom” levels; yet in 1981, indexation was abolished — perhaps “forced out” would be a better description — amid strong wage pressure which will now almost certainly increase. Why is it that what worked as a stabilising influence in 1953 will now probably be seen merely to have opened wider the flood gates of wage demands? Inflation, in the two years of the “wool boom”, was worse than that perpetrated by Whitlam in full flight. Yet there was a clear perception of its cause, and a sufficient belief that the effects would disappear with it, restoring stability for the future.

The situation now is very different. In 1953, the public sector pre-empted about 30 per cent of Gross Domestic Product, compared with 38.1 per cent last year. It seems likely that there is a certain maximum public sector burden which the economy, at a given state of development, can stand without chronic inflation and other signs of instability; and that the Australian economy has been struggling to function under a burden well above this maximum, with little respite in sight, ever since the Whitlam era.

Another important consideration for unionists is that income tax, which took less than 11 per cent of the income of a person on average weekly earnings (leaving aside deductions) in 1953, purloins nearly 24 per cent today on the same basis. Furthermore,

the effect of "progressive" tax (especially the much higher marginal rates now taking effect), for the ordinary Australian, is that even full indexation of the total wage would not maintain real disposable income in an inflationary situation. In these circumstances, union leaders have no choice but to press as hard as they can for wage rises in excess of indexation. This is a test of consensus which indexation would have no chance of surviving, even without the August Budget.

#### **IV THE BUDGET**

There can be no doubt that the Budget will compound the already formidable problems in the way of sensible and equitable wage-fixing. Foremost among its detrimental effects is an increase in budgeted outlays of 2 per cent in real terms. It must now be concluded that there is no political grouping in sight capable of drawing down the excessive public sector spending and thus removing the fundamental cause of inflationary pressure.

Given that no serious attack is to be made on public sector spending, the only course left to take the pressure off interest rates (in itself a desirable objective), was to reduce public sector borrowing, leaving more funds available for the private sector. The Commonwealth can achieve this by raising taxes. But pressure has also, quite logically, been put on borrowing by the States and their qangos. As a result, there have already been reports of wild increases in charges by public sector authorities, some far in excess of inflation, or, more ominously, budgeted wage rises.

More obvious and, at the same time

unnecessary, spurs to wage demands are the budget tax increases. In order to increase incentive for productive effort and to decrease that for tax avoidance and evasion, the Institute has argued, as a poor second best to ruthless cuts in public sector spending, for a more widespread indirect tax, offset by income tax cuts at least as substantial. The new Sales Tax will take \$900 million out of taxpayers pockets in the first full year, while PAYE taxpayers will contribute a monstrous 22 per cent more to income tax revenues. A desirable reform has thus been turned into a double disaster for any hope of sanity in wage fixing. In looking after his membership, no union leader could ignore these formidable imposts.

#### **V WHAT OF THE COMING YEAR?**

With the failure of consensus for orderly wage fixing, indexation had for some time been practically dead, when the Arbitration Commission administered the coup de grace at the end of July. The established Federal and State arbitration machinery continues to be available and the Commission has made it clear that it will continue to hear cases put before it, while warning of its responsibility to consider the public interest and the likely effects of its decisions on inflation and employment. In the present industrial climate, claims before the Commission which are rejected because they fail these tests will almost certainly be pursued as over-award payments outside the system. There are three principal reasons why such tactics might run into trouble. First, the competitive position of the industry might prevent the success of the claim.

Secondly, employers might experience a contractual difficulty in passing on increased wage costs not part of an award, as in the recent \$20 a week claim by road transport drivers. Thirdly, monetary restraint, one of the Government's proposals as a wage restraint measure, would make it more difficult for employers to accede to unions' claims. The problem with this method is that it tends to hit free enterprise hard while leaving the public sector practically unscathed.

Another of the Government's wage-restraint proposals, which has perhaps been given more prominence than it merits is for selective tariff cuts. Four-fifths of the workforce are in the primary or tertiary sectors, which would not be adversely affected by Tariff cuts. Of the remaining 20 per cent of the workforce in manufacturing, by no means all are in high tariff industries. It is true that those that are could be injured by a reduction in their protection but it is principally the employees who would suffer. Many Australian manufacturers have arrangements to import similar lines and could close their factories and continue as importers if their protection were withdrawn. Oversea companies manufacturing in this country would find the transition even easier. In addition, there has been a certain wariness about capital spending since the 25 per cent across the board tariff cut of 1973, so that the write-off resulting from plant closure might not, in some instances, be too damaging.

Whether or not a stringent monetary policy is pursued, the wage pressures of the last six months (including the campaign for

a 35 hour week) would, if continued, result in a fairly stormy year industrially. If proposals at present being put forward in union circles are given effect, then industrial disputation is likely to be of a far more serious magnitude again. These proposals include a campaign to gain quarterly indexation of wages as a basis upon which widespread collective bargaining with employers may be mounted. Both the push for indexation and the specific claims may take place wholly outside the Commission. Looked at from an extremist point of view, such campaigns have merit whatever the outcome. If employers accede to the demands, cost-push inflation will receive a further impetus. If they resist, (possibly because of monetary stringency) the destabilising effect of massive industrial disruption would be most satisfactory, even though unionists may have little to show for it.

It may be thought that the good sense of most unionists would restrain the wreckers among the unions' leadership. But if the rank-and-file should become convinced that their living standards will be eroded by inflation whether or not they support such campaigns as these, their good sense might work the other way, whatever the bitter-end logic might be. They might feel they have no option. This is the potentially disastrous penalty of too big a public sector.

## VI ARE THERE SOLUTIONS?

What, with hindsight, appears to have been the leisurely consensus of pre-Whitlam times, which enabled the arbitration machinery to work effectively, has gone. Destabilising factors, particularly inflation, are far



