

The Role of Entrepreneurs and Government in Australia

Wolfgang Kasper*

Abstract

Coming from overseas in the 1970s, Australia looked to me like the 'Land of Missed Opportunities'. Partial liberalisation during the Hawke-Keating era and some further reforms under Howard-Costello let Australian entrepreneurs and citizens realise much of their considerable potential: Australians became winners. Since then, we have suffered wealth-sapping political curtailments of economic freedom. After the 2016 election, overdue and urgent reforms are likely to be postponed. This heralds further relapses into a less citizen-friendly policy setting.

In this situation, it is urgent to re-examine the role and size of government, in particular unsustainable redistribution policies and enterprise-hampering interventionism in a Green or a social-justice guise. Australians will only master the challenges of a dynamic global economy, if governments become lean and modest and leave more breathing space for self-responsibility and risk-taking enterprise. Failing that, we will again become losers.

To be intellectually and morally unprepared for reform in these times of profound structural change could cause economic trauma for a whole generation, which is used to sustained growth. Some unexpected event could suddenly complicate the currently unstable situation. Then, what most now may consider impossible may well become the only possible course of action. Now is therefore the time for civic groups to do the intellectual groundwork for a new reform strategy!

Australia struck me as a country of missed opportunities when I came here on what was meant to be a brief academic visit in 1973. My views were shaped by the two formative experiences as a young economist, first the post-war economic recovery of West Germany, then the take-off into accelerated growth in East Asia. In both cases, governments got out of the way, opened markets to competition and stuck to fiscal and monetary discipline. The people responded by working, saving and taking risks, and their wealth creation soon resulted in confidence and optimism.

Only ignorant journalists and Keynesian pseudo-economists called these episodes 'miracles'. The 'German economic miracle' and later the 'East Asian economic miracle' demonstrated what

* Professor of Economics *emeritus*, University of New South Wales, Australia. This is the edited text of an invited address on 5 July 2016 to a meeting of the *Bastiat Forum* (Sydney) and the Vaucluse Branch (Sydney) of the Liberal Party. — The author thanks Dr Mikayla Novak for valuable comments on an earlier draft, but of course retains all responsibility for judgements and errors.

free people will do in a free economy under the rule of law. Only observers who refuse to learn this fundamental lesson will call it a miracle.

When I arrived at the Australian National University late in the Whitlam era, I encountered an intensely unhappy social atmosphere. Fiscal profligacy, loose monetary policy, currency devaluation and waves of wage increases and strikes failed to lift the spirit. Nor did it stimulate employment or growth. All political discussion was about how the visible hand of government should redistribute a poorly growing national product. Soon, the Fraser government switched to restrictive monetary policy and made marginal policy adjustments, but clung to high tariff protection and heavy-handed regulation. Unemployment ratcheted up. The unhappiness persisted¹.

This struck me as wholly unnecessary and perverse: Here was a country rich in natural resources, located in the booming East-Asian time zone, with essentially good social and legal institutions inherited from Britain, a high savings rate and a reasonably educated population. Yet, the economy kept lagging behind, because job creators had to apply for numerous permits and often got lost in a bureaucratic maze of contradictions. The Reserve Bank employed a small army of well-paid officials to approve or reject foreign investments. Despite sitting on the world's best iron-ore and coal resources, BHP was earning a meagre 2% return on its steel-producing assets. Highly protected car plants were turning out poor-quality clunkers costing twice world-market prices. A two-airlines policy ensured that two planes flew the same routes at the same time, each half empty.

We now know that intellectual groundwork by business leaders, a few academics (I became one of them), a few civil servants, the “Dries” in Parliament and a few journalists helped to pave the way for the sea change in economic policy under Hawke and Keating. The Labor government opened the economy, freed up most product and capital markets, cut tariffs and floated the currency. But big government and union-dominated, regulated labour markets were treated as holy cows. The expected boost to productivity therefore eventually petered out. — In the late 1990s, the Howard-Costello administration gave Australians more leeway to be enterprising, here and in overseas markets. Treasurer Costello rid us of Commonwealth government debt and costly interest burdens and encouraged us to save more for old age by tax cuts.

Over the quarter century between 1982 (when reforms began) and 2008 (when the Rudd-Gillard-Swan trio took over),

¹ W. Kasper (2015), *The Case for a New Australian Settlement, Ruminations of an Inveterate Economist*. Occasional Paper 141 (Sydney: Centre for Independent Studies).

- Australians mastered a period of rapid structural change;
- on balance, more than 4 million additional and better jobs were created — despite much destruction of previously mollicoddled jobs; and
- average real per-capita incomes more than doubled, overall a most impressive 220%, with only one recession in between.

We did not just drift passively along on the tails of a China boom, but enterprises risked investments and innovated; bankers ventured out; workers learnt new techniques and most acted pragmatically and sensibly.

We became winners!

Alas, the long growth wave came to an end. As we prospered, the public discourse was no longer about the merits of freer markets, leaner governments and completing the reform agenda. The public mood – the *zeitgeist* – lapsed back into the out-dated ‘Federation concept’ of big government and dependency. The last Howard administration showed worrying signs of reform fatigue, trying to buy the election with unaffordable handouts. The Rudd-Gillard governments then not only upped the handouts, but made long-term, unfunded spending commitments, for example for the schools and hospitals for which the States are responsible. At the first whiff of a global recession, the Labor government eagerly embarked on an unnecessary, silly, futile Keynesian spending binge. We have suffered relapses into wealth-sapping politicking ever since, both at Commonwealth and State levels. When China’s breathtaking take-off into capitalism and fast, private-enterprise-driven growth decelerated, which was predictable, and a crisis shook the world financial system, we were intellectually and morally ill prepared for tackling these challenges.

To my mind, we are still poorly prepared to face the challenges ahead.

...

We would now be well advised to reflect anew on the role and size of government. What can we, the voters, reasonably expect of governments at national, State and local levels? And what should we *not* expect of them? Only when a community gives rational, far-sighted policy its moral support will we get such a policy. In the final analysis, we get the governments — the elected politicians and the unelected bureaucrats — that we deserve. But small groups of like-minded people can do much to shape the *zeitgeist*, and with it what is possible in a democracy.

To answer the question about the appropriate size and role of government, we may find guidance in international and historic experience, as I did when I came to Canberra during the

‘Whitlam party’. — Better still, we should look to basic economic insights and philosophical wisdom.

The great minds of the Enlightenment — the likes of John Locke, Voltaire, the Baron de Montesquieu, Immanuel Kant, Alexander von Humboldt, David Hume, Adam Smith and Frédéric Bastiat — saw individual liberty and individual self-responsibility as the main motivators and guarantors of people’s well-being and crucial to fostering social harmony. Government was to be minimal. Most choices about what was to happen in a country were to be made by self-interested private individuals and firms. Their competition would lead to a market order. The United States of America drew on this 18th century concept of governance: the Declaration of Independence (1776) and the US Constitution (1787) turned the ideas of Locke and Montesquieu into the lodestar for governance. To some extent, similar sentiments of individual freedom and limited, rule-bound government also guided the early Australian colonies.

Later in the 19th century, the philosophy about government changed. The general popular vote and the rivalry of organised political parties increasingly altered perceptions about governance. Thinkers — such as John Stuart Mill, Jeremy Bentham, and later even more so the socialists and Fabians — saw government increasingly as a utility: What can government – (falsely) assumed by them to be benevolent and well informed – do for the electorate? If something goes wrong: How can government rectify things? Reliance on individual self-responsibility was depicted more and more as cruel and unjustifiable. More and more choices were becoming collective, public and hence politicised. The patron saint of this Forum, Frédéric Bastiat, castigated this utilitarian attitude to government when he warned: “Everyone wants to live at the expense of the state. They forget that the state wants to live at the expense of everyone.” Such warnings had no effect. The more collectivist, utilitarian conception shaped opinions in the late 19th century, not least in the new Australian Federation.

Americans or the Swiss, who retain a stronger, more deeply entrenched preference for liberty and responsibility, are bemused when looking at democracy Downunder. Would it ever occur to an Australian politician, who wants to be elected, to say what Ronald Reagan did: “The most terrifying words in the English language are: I’m from the government, and I’m here to help”. Or (another Reagan quote): “Government is like a baby. An alimentary canal with a big appetite at one end and no sense of responsibility at the other.”

•••

The trauma of the Whitlam-Fraser years – and inspiration from Thatcher and Reagan – made it possible in the 1980s for public sentiment in Australia to deviate from the utilitarian tradition of

conceiving government. Alas, under the reactionary Rudd-Gillard and the reform-shy Turnbull governments, deeply ingrained utilitarian attitudes have again gained the upper hand:

- You hear daily pleas for more government and more interventionist redistribution on the state broadcasters ABC and SBS.
- The most admired people in the community are those who lobby for handouts. And because everyone does it, you'd be stupid not to join in the feeding frenzy. We admire the activists who are generous with other people's money. I recently heard a church leader praise a 'welfare rights activist' as a 'Good Samaritan'. In my Bible, the Good Samaritan used his own resources to help the victim whom he found on the road and paid the innkeeper with his own *denarii* to care for the aggrieved victim.
- Meanwhile, public debt grows every day; the prospect of budget balance recedes into the fogs of the distant future. Credit rating agencies have now put our governments on their negative watch lists.
- When the political elites and their media lackeys are not pleading for handouts, they urge more regulations of that evil human pursuit: the production of goods and services by capitalist enterprises. Single-issue groups, legal practitioners and lobbyists push relentlessly for more freedom-sapping regulations. Opportunistic politicians and bureaucrats eagerly oblige. Indeed, bureaucrats often hand our taxes to single-issue lobbies, which demand more restrictions of our freedom. Red tape is Australia's biggest industry. Recently estimated at \$176 billion, it absorbs 11% of the cost of generating the national product!² Admittedly, the Coalition government's 'Red Tape Reduction' programme has led to some net reductions in compliance costs. But at present deregulation speed, we would reach zero regulation not before the year 2175!³ — Not that zero regulation should be the objective. What is needed is more citizen-friendly regulation, and less regulation that just serves bureaucratic and political interests; more regulation that expedites and reassures enterprise, not hampers it. In Asia, there are One-Stop Shops for investors. When some Australian State governments imitated the idea, these were promptly turned into One-More-Stop Shops!
- Concerns about the environment and possible global warming have given rise to a major increase in single-issue politicking. Irrespective of whether humans contribute much to climate change (which I personally doubt), new political elites use this to curb our freedom, especially our economic freedom. They endanger our security, violate justice, and diminish

² Dr. M. Novak of the Institute of Public Affairs, the free-market Melbourne think tank [ipacutredtape.org.au/reports/the176-billion-tax-on-our-prosperity/] dated 11 May 2016. Also World Bank.

³ Australian Government, *Annual Red Tape Reduction Report 2015*

the life opportunities of the many. Often blatant attempts to gain power overturn the established rule of law.

- In addition, rational discourse is now increasingly hampered by political correctness and legislated limitations on free speech. Tony Abbott, when Prime Minister, withdrew his promise to scrap Section 18C, which constrains free speech, because he found it opportune to appease thin-skinned Muslim activists. All Australian universities, bar one, now circumscribe free speech in lecture theatres. This atmosphere now stifles individual liberty and enterprise. It infantilises us and favours more government.

The end result of these developments is an erosion of economic freedom, and that means a sapping of the forces of economic growth. An environment that is saturated with regulations also tends to go along with a less equitable income distribution. To give you a few examples:

- Labour-market regulations are often impediments to the young and other outsiders. The minimum wage hinders many from getting their foot on the first rung of the job-and-skill ladder.
- Subsidised solar panels are installed by the rich, while the poor just have to pay higher and higher electricity prices.
- Often, land classification and cumbersome development approvals prevent the poor from getting cheaper housing or starting a business.
- It is an illusion that redistribution policies favour the poor and take from the rich. In reality, the politically well-connected and well-organised gain at the expense of everybody else. Let me quote Bastiat again: “Government is the great fiction through which everybody endeavours to live at the expense of everybody else”.

Since 2005, the international economic freedom ranking of Australia has been sliding backwards⁴. The weak points are always the same: big government, labour-market rigidities, and cumbersome business regulation, while we are credited with good monetary management and a decent legal system.

...

Economists have long taught us that government has three key functions⁵:

- the classical *protective function* — protection from fraud, violence and external coercion,

⁴ See, for example, the respected annual assessments by the Fraser Institute in Canada and the Cato Institute in the US: <<http://www.freetheworld.com>>. Numerous other surveys come to the same conclusions.

⁵ For a more analytical, documented analysis of what follows, see: W. Kasper, M.E. Streit and P. J. Boettke (2012), *Institutional Economics: Property, Competition, Policies* (Cheltenham, UK –Northampton, MA, USA), pp. 311-379.

- the *productive function* — providing those infrastructures and services that competing private enterprises cannot, and
- the *redistributive function* — assisting the “waifs and widows”, which has become the foremost growth industry of the 20th century: rob Peter to pay Paul!

Classical liberals accept that governments have a *protective function*. We are not anarchists. Governments should have the ‘violence monopoly’, and violence professionals — the courts, the police, the military, the jailers etc. — should be tax-financed, because the purse strings are the best control to ensure that they, the violence professionals, do not turn against us.

The argument for a considerable *productive function* of government used to be that infrastructures, such as roads or canals, were very costly and could only be financed by government. Moreover, their use was impossible to measure and user fees were too expensive to collect. Meantime, capital markets have grown, so that big projects can be financed privately. And thanks to the IT revolution, the use of privately built infrastructures, such as motorways, can now be effectively measured by transponders and similar devices, and paid for by electronic billing.

The prominent American ‘public choice school’ of economics has taught us that there is now much scope for privatisation and that the role of government should now only be to ensure equitable access to goods and services, as well as to ensure quality standards and honesty. Bureaucrats need not run schools; and hospital services need not be provided along the lines of the Soviet model. Instead, parents and patients can often be empowered through tax-funded vouchers. In many instances, people will shop around to buy the competitively produced education and health-care services that best suit them. Roads need no longer be built and repaired by local council workers. Councils should only plan the work and then sub-contract. No more workers leaning on shovels between extended tea breaks! No more flagmen, when automatic traffic lights can do the job! If the Baird government of New South Wales had directed local governments to switch to competitive sub-contracting, they could have saved costs and avoided unpopular forced amalgamations.

In short: nowadays, governments should greatly reduce what they produce; they only need to be providers of access to public-domain goods and services.

The most vexatious issue with big government, however, is the metastasing of the *redistributive function*, by taxes and subsidies and by redistributive interventions in free markets. This has been the growth industry of the 20th century. The election campaign of 2016 revolved almost exclusively around more grubby redistribution.

The welfare state has led us on a slippery slope. Ultimately it leads to a dead end, as competing political parties rival inevitably with each other by offering more and more handouts and interventions. Proliferating redistribution by the visible hand of government has numerous deleterious consequences:

- It destroys individual responsibility and creates disincentives to work, save and risk. My friend, veteran US economist Tom Sowell, put it well: “What the welfare system and other kinds of government programs are doing is paying people to fail. In so far as they fail, they receive money; in so far as they succeed, even to a moderate extent, the money is taken away.” People become disdainful of productive work and addressing the challenges of changing market conditions. Long ago, Charlemagne decreed: “No man must give alms to beggars who will not work”. But that was long ago. His wisdom shows why he was called ‘Charles the Great’!
- Redistribution by regulations has led to a minefield, in which job creators and inspired technical and commercial achievers are ever so often discouraged. Instead, the scene is dominated by government committees, lobbyists and lawyers, who have little incentive to promote entrepreneurial success and economic growth. To quote Tom Sowell again: “It is hard to imagine a more stupid and more dangerous way of making decisions than by putting those decisions in the hands of people who pay no price for being wrong”.
- The modern market economy is a dynamic, incredibly complex system. The supplies of, and demands for, millions of different products and services are ordered by price signals. They coordinate people’s productive contributions with what other people would like to buy. Growing redistribution destroys this essential signalling device. Bastiat wrote some 150 years ago that it is “costly to divorce personal rewards (incomes) from personal contributions (productivity)”. Ecologists have taught us not to tangle with Nature, which is a complex system, because unintended deleterious side effects will harm us. Yet, these same people often advocate wanton interventions in an equally complex system – the competitive free-market market order that is essential to our wellbeing!
- ‘Entitlements’ – because they are never sufficiently generous – polarise society and create discontent and cynicism. The young become rebellious. The entitlement culture leads ultimately to social degeneration.
- Redistribution also leads to a growing dislike, even a hatred of political elites. I must yet again quote Tom Sowell: “If you have been voting for politicians who promise to give you

goodies at someone else's expense, then you have no right to complain when they take your money and give it to someone else, including themselves"⁶.

- Redistribution policy produces public deficits and piles up growing, costly debt burdens.
- It creates cost disadvantages in international competition.

Populist appeals for more redistribution now gain massive influence through the social media, in particular among the young. Interventionist giving and taking is now vigorously influenced by single-issue activists. Shared values and the understanding that all policy must simultaneously pursue a multiplicity of fundamental objectives – such as liberty, security, peace, justice, maintaining a liveable environment, and prosperity – give way to an antagonistic, fractious society. Redistributive activism is now gradually destroying social cohesion in the mature democracies, and with it our common wealth and our trust in democratic government. One look at the mature welfare states of Old Europe will show you how the utilitarian-democratic approach to government is making nations ungovernable.

There is no need to argue against all redistribution. Some of it is justified in a wealthy nation like ours: helping the young, the incapacitated and those old people who have insufficient means to live decently. But the welfare state must not subsidise those unwilling to work. It must not relieve people of self-responsibility. In Australia, it needs to be pruned back a lot and must be targeted at genuine poverty, as well as ensuring equitable *starting* opportunities for all! Equality of *outcomes* irrespective of effort (and luck) is poison.

•••

If what I said has so far not convinced you, here come the two 'killer arguments':

- ❑ First, politicians and bureaucrats *simply do not know*, but often only pretend to know. They often rely on modelling based on facile, unrealistic assumptions. — When you hear “modelling shows...”, immediately think: “Garbage in, garbage out!” The economic discussion in Australia is dominated by so-called economists, who may be good at applied maths, but lack all understanding of how real enterprises and real people make economic choices and how competitors in markets discover what is useful⁷. Most policy advisors simply do not understand the essence of capitalism.

⁶ Prof. Sowell's recent columns in the American 'Townhall' website is a powerful indictment of the expanding American welfare system, which has contributed to rising crime rates, violence and early pregnancies (see his 'Is Personal Responsibility Obsolete?', 7 June 2016 <http://townhall.com/columnists/thomassowell/>)

⁷ For a very short primer, see: W. Kasper, 'Competition', in D.R. Henderson (ed.), *The Concise Encyclopedia of Economics* (Indianapolis: Liberty Fund, 2008), pp. 73-76.

□ Second, politicians and bureaucrats in reality *pursue their own interests*. Economists call this the ‘agent-principal problem’. In theory, we the citizens, are the principals, and elected politicians and appointed bureaucrats are our agents: “Government of the people, by the people, for the people.” In reality, public choices are made by officials, who rarely face the direct consequences of their decisions. In reality, the bureaucrats and politicians are well informed and close to the action, and we, the citizens, often choose to remain ‘rationally ignorant’. If we turn our backs on the political process in disgust – as happens widely in Europe – we self-disenfranchise ourselves. Our agents then become the bosses and act in their own interest: “Government of the bureaucrats, by the bureaucrats, for the bureaucrats”.

When 19th century philosophers argued for bigger government and 20th century practitioners and the public followed suit, they made the completely wrong assumption that government officials were well informed and dedicated to the public interest. This is plainly wrong! This is why private choices and reliance on the invisible hand of competition are in most instances more effective and citizen-friendly than reliance on the choices by public decision monopolists.

We ignore the systemic weaknesses of public choices at our peril, whilst we take the benefits of private choices by capitalist entrepreneurs and free consumers for granted. Though we enjoy the benefits of capitalism, we only nod when opinion leaders revile it and depict the competitive economy as selfish and immoral! Most political leaders and their enablers in the media habitually doubt that there will be further benefits from letting untrammelled markets rip. The paleo-socialist Bernie Sanders in the US, his socialist bedfellows in Europe, and *GetUp* and the Greens in Australia get much media attention and much acclaim for their wrong-headed positions. Politicians of all colours promise to better our lives by public spending and subjecting free enterprises to more regulatory impediments. Yet, it is free enterprise that is creating the iPhones, the iPads, the live-saving pharmaceuticals and all those new amenities that we take for granted. Capitalist enterprise creates and tests new knowledge. It offers us more diversity and choice. Why do not more of us laugh the regulators and interventionists out of court?

Innovation is essential for sustaining our well-being. But it does not come from “a plan”. Malcolm Turnbull’s message that he had “a plan” sounded hollow. Nor does “innovation” come from government subsidies, governments picking winners, or governments telling what energy sources we must use. Even worse, politically opportunistic handouts to ailing industries, such as Arrium Steel, when sold as innovation measures, signal that the government is ready to erect outright obstacles to market-driven structural adjustments and proper innovation. If Australians hope to derive useful innovation from defence contracts, they should know that it would be easier to extract milk from a bull! In the election campaign, ‘innovation’ remained an abstract,

anaemic and vacuous concept. In reality, innovation comes from free enterprise and competition among free people. No cronies! The flower of innovation blooms when the climate and soil are right. Its bud cannot be pulled open by the visible hand! I missed this insight during the recent election debate. Nor have I heard the Commonwealth Minister for Innovation ever talk intelligently about competitive markets and market incentives for people to shoulder innovation risks. If we want the broader public to embrace innovation, we need discussion of concepts such as capitalism, competition, private enterprise, and deregulation.

•••

After what I have said so far, you may well ask: Why do not more Australians opt for more freedom? Tradition is part of the explanation. But we also must realise that freedom and self-responsibility come with risks and costs. Freedom imposes the burden and obligation of staring into the fogs of the future to make choices, for which we will later have to bear the consequences. Economists say that innovators must ‘incur transaction costs’ without being sure of the outcomes. Many costly projects end in losses, and few oil-exploration drills lead to a bonanza! Living in a free society also means that we have to enforce agreements and rules, which can be uncomfortable. Better to delegate that to the government nanny! The competitive capitalist system ceaselessly invites people, who made a profit and gained a certain socio-economic position, to reinvest their wealth into new ventures. Those who refuse may well find that the value of what they own gradually decays. Therefore, many of us find that being unfree is more comfortable. These are the reasons why the demand for freedom is in truth often a pretence, and the assumption that people want to be free an illusion.

•••

After this long, tiresome election campaign and the election result, which will be a debacle for whoever will be responsible for government, you will ask me: What does all this mean for economic policy?

In my view, the ongoing structural changes in the world economy and growing uncertainties about the near future require a cohesive, confident economic strategy, which should be focussed on productivity growth. Innovation and good productivity growth can be had when governments get out of the way, when economic freedom serves as the lodestar that orients all individual policy actions. The following considerations should be given high priority:

1. Let us enhance openness and competition — free people in free markets, in particular in what economists call ‘*factor markets*’. Labour market reform is a priority, as free labour markets are the best way to reduce unemployment and give the young and less-well-skilled a chance to get their foot on the job-and-income ladder. Labour-market competition also controls the

power of employers, because they have to rival with each other for the best workers and skills. — The market for the factor capital could also do with a little more competition for the Big Four banks by the adoption of the proposals made by the Financial Systems Inquiry⁸. — The rules on the treatment of lifetime *superannuation savings* should remain stable. A possible exception should be a stipulation, which makes it much harder for superannuants to squander the ‘golden hand-shake’ in order to qualify for a government pension.

2. In *product markets* much could be gained by replacing the cobwebs of costly past regulations at Commonwealth, State and local levels with streamlined, citizen-friendly regulations, which are simple, certain and uniformly enforced. No more preferential deals for cronies! No regulations to advance bureaucratic careers or create electoral advantages for politicians! — As one of Australia’s most pronounced and pervasive competitive advantages is cheap energy, good economic policy must ensure that this advantage is freely and equitably accessible to every potential energy user.
3. The entire system of *government finances*, indeed the design of the Federation, needs to be critically re-examined. Let’s ask: What are the essential tasks of government? Defence, law and order, essential health care and safeguards for the environment would be covered under the protective function, which is the primary task of government. Education and basic skill formation can be seen as desirable ways to ensure equitable starting opportunities and ways of imbuing a sense of communal integration. Australian governments of all stripes should become serious about streamlining all welfare. Let’s replace the myriad of specific programme handouts with negative income taxes and vouchers. Such reforms could well allow us to dismiss many, who now are on the payroll of the ‘redistribution industry’.
4. To my mind, a priority task would be to ask anew, which specific tasks should be exclusively assigned to which level of government. If this were done according to the principle of *subsidiarity*, this would put an end to off-putting, infantile blame shifting. — Prime Minister Malcolm Turnbull recently had an admirable 30-minute attack of economic rationalism when he spoke about the idea that each level of government should be responsible for raising the revenues necessary to fulfil their assigned tasks. Such ‘fiscal equivalence’ would pave the way for *competitive federalism* and do away with the destructive system of vertical and horizontal transfers — the most damaging leftover from a bygone era of economically irrational government.
5. If market reforms encourage faster productivity growth, *budget repair* should be made a target within four years. This must be done without tax increases, since Australia – with a tax

⁸ The report was delivered in late 2014. See <<http://fsi.gov.au/publications/final-report/>>

ratio of 26.8% to domestic product – now is markedly above the weighted OECD average of 22%⁹.

Generally, the economy must be made a priority in times of possible stagnation or recession. Topics such as gay marriage, feminism, votes for 16-year olds, or racial recognition in the Constitution may well serve as tempting diversions from the hard economic issues. But they will drain the limited stock of political and administrative energy. The government should stop funding single-issue lobbies with tax money, realising that these activist groups make a cohesive, rational economic strategy harder.

Above all, the next Australian government should show leadership by talking about the fundamental liberal and Liberal values that make for the good government of a good society: freedom, security, justice, peace, equity, conservation of a liveable environment and prosperity. This would create a shared reference system against which to judge specific policy proposals. And affirming these basic truths with some passion could have the welcome, contagious effect of furthering social cohesion in our multi-ethnic society.

•••

How realistic is my counsel for such a bold flight forwards? As of 5 July 2016, not at all! Deficit repair? *Forget it!* AAA rating? *Going, going, gone...!* Labour-market reform? *Impossible!* — More free trade? *Not with the Xenophon mob!*

With prospective political paralysis and the distraction of second-order non-economic issues, the Australian economy is now headed into perilous waters. If some new challenge comes out of left corner, a generation who have not experienced a recession will have to cope with massive job destruction and strict monetary restriction. It could well be threatened with big trauma.

Should that eventuate, we need to be prepared with a well thought-out strategy, based on intellectual capital, which civic organisations, like tonight's gathering, create by their deliberations. The political-bureaucratic elites have obviously parked the analysis of policy problems from first principles and lessons from history in the too-hard basket. But let's be undaunted and think boldly now. What may today look like completely impossible today, may before long become the only possible solution.

Thank you!

⁹ M. Potter, *The Case against Tax Increases in Australia: The Growing Burden* (Sydney: Centre for Independent Studies, June 2016).