



THE GIFT OF EVIL:

THE POLITICS OF PROPERTY

Colin Tatz

T W H Crossland, a late English Victorian bohemian, was famed as a journalist and writer of invective. I remember this paragraph:

Your proper child of Caledonia believes in his rickety bones that he is the salt of the earth. Prompted by a glozing pride, not to say by a black and consuming avarice, he has proclaimed his saltiness from the house-tops in and out of season, unblushingly, assiduously, and with results which have no doubt been most satisfactory from his own point of view. There is nothing creditable to the race of men, from filial piety to a pretty taste in claret, which he has not sedulously advertised as a virtue peculiar to himself. This arrogation has served him passing well. It has brought him into unrivalled esteem. He is the one species of human animal that is taken by all the world to be fifty per cent cleverer and pluckier and honester than the facts warrant...And, to have done with the parable, he is the bandy-legged lout from Tullietudlescleugh, who, after a childhood of intimacy with the cesspool and the crablouse, and twelve months at "the college" of moneys wrung from the diet of his family, drops his threadbare kilt and comes south in a slop suit to instruct the English in the arts civilisation and in the English language.

Och, aye. It comes from an essay, not surprisingly entitled *The Unspeakable Scot*. But three arts of civilisation come to mind, despite Crossland: golf, whisky and the framing of laws that embody a doctrine and practice of reparations. The Scots didn't invent the philosophy behind reparations, but they were the first to frame a coherent body of law that provides for damages or other compensation for harm done intentionally, negligently or in breach of a statutory duty (such as a duty of care in the Aboriginal case.)

We have had several small Prime Ministers this century. The biggest of them was Billy Hughes, who defined the issue before the Commission on German Reparation in 1919:

No wrong without remedy. Whatever the nature of the wrong – whether to life, limb, health, property, or any other right, the wrong-doer must, as far as he can, make reparation for the wrong. As it is between individuals, so it must be between states. That is the reign of law; that is the principle of justice.

The men in threadbare kilts provided for payment of money for those who suffer injury or financial loss as a result of a legal wrong. There can be no doubting the value of the remedy of restitution, by which a court orders a wrong-doer to restore moveable property, including money, to an aggrieved person. We can give back the givable; we can restore the restorable. But if neither is possible we are left with only one remedy: money. In 1625 Grotius, father of modern international law, contended that "money is the common measure of all things". Feelings about "blood money" notwithstanding, to refuse the money is to refuse the atonement. And that, argued little Billy, is what we must never do: never let the wrong-doer escape his action, his confession, his guilt and his expiation.

Alan Gold's character, Joshua Krantz, hires a smart Jewish lawyer, Sarah Kaplan, to restore to his family his grandparents' house in a village in Slovakia. His motive? Not so much restoration or reparation as not allowing the wrong-doers to escape their actions. "The subtext," says Sarah to her client, "is that you want to expose the Slovakian government, and the Hungarian, Russian, German and all other European governments, for what they've done to the Jews during this century." Alan: "He nodded sheepishly. 'Sarah, the Aborigines have got back parts of Australia, as have the Inuits their land, and the American Indians. Anything's possible. But the truth is that I don't even want the house back. I just want to make front page news.'"

Some major problems arise from these introductory comments. First, societies have become very good at reparation and compensation in cases of individual wrongs, whether intentional, negligent or accidental. In New South Wales we have a Victims Rights Act and a Victims Compensation Act, both enacted in 1996. The German reparation system is embodied in the Federal Indemnification Law of 1953, and the Israeli-German restitution agreement of 1952. The Indemnification Law in Germany begins by admitting that a wrong was committed upon people by reason of their race, faith or ideology. Claimants can thus include "those deliberately or frivolously killed or driven to death", or their successors; "persecutees" who were treated as being "unworthy of a human being", who were deprived of liberty through "preventative custody, penal imprisonment, detention in a concentration camp or forced to stay in a ghetto". But apart from these procedures, still ongoing, still vexed and difficult, there has been no other formal recognition of the rights of victims of genocide – not for Armenians, Hutus, Tutsis, Bangladeshis, Ibo, South American Indian tribes, Bosnian Muslims, or our Aborigines.

Secondly, and oddly, as we will see, the German reparation emphasis was on loss of life, not property. True, they called it *Wiedergutmachung*, making good again. But how, in God's name, do you make good again those "driven to death", frivolously or otherwise?

What emerges is that the first and immediate reaction to genocide is numbness, even dumbness in the face of cataclysmic corpses. That numbness, in the case of Jews, persisted for almost 30 years, three decades before Jewish historians began to reconstruct and deconstruct the genesis, evolution and unfolding of events, years before survivors could bring themselves to pursue the mundanity, even the banality, of applying to the perpetrators, or their successors, for the right to be recognised as victims. And even then, 30 to 50 years later, we have to eviscerate the truth, as in the Anne Frank saga.

Third, it is among the second and third generations that distance, time and, dare I say it (as Alan Gold does) luxury, allow pursuit of reparation, usually of the Joshua Krantz variety. The motives are not solely wanting the world to know what Europeans did to Jews this century. They also include the loss of family continuity; very rude disruption of extended family; often a sense of "what would have happened to me had I been there, in that village, instead of in safety in Santa Monica"; often, the guilt of being born in Santa Monica rather than in Shavli, Schitomir, Lodz or Lublin. More than anything, I think, is the desire, certainly my own, to tell the world that something happened, something momentous, a tremendum, and the world ought to pause long enough to at least acknowledge that it happened.

Fourth, the continuing dilemma of life versus property. Pope Pius XII was said to have been overly concerned about Church property – hence his failure to intercede when intercession was both possible and likely to be effective in a largely Catholic Germany. One Polish Cardinal placed total precedence on Catholic property – until children began being rounded up. He ordered priests to save young lives at all costs. Not all cardinals or bishops saw it his way. Another stark but very little known example in this context is what happened in Denmark. The Danes saved some 8000 Danish Jews. Many were so paralysed by the impending Nazi onslaught that they literally couldn't move: Danes physically picked them up, carried them, placed them in their little blue boats and rowed them to Swedish safety.

After the war, Jews returned to Copenhagen, seeking their apartments and homes, now occupied by, among others, their rescuers. Bloody rich Jews, cried the saviours of the saved, this is our property now. In a sense, I never understood any of this until, some 30 years ago, I read what is probably Norman Mailer's best book, *Miami and the Siege of Chicago*. Essentially about the Democrat nomination convention and the unlamented Mayor George Daly, Mailer convinced himself, and me, that property is politics and politics is property, not life. When one understands that the real issue behind a hijacked plane is not the lives of the 100 or so on board under a threat of grenades, but a \$400 million jumbo, then one understands, as Alan Gold has shown, the extent to which institutions of church and state will fight for

their property, their propertied territoriality, their propertied sovereignty.

Finally, and here I want to say some of the things that Par O'Shane may have wanted to say, some comments on the meaning of Alan's book for Aborigines today. The Aboriginal search for both acknowledgment and recompense has been long and painful. Land rights, in all but Western Australia and Tasmania, have been achieved with varying degrees of reluctance and legal challenge. Claims about possession and dispossession climaxed in the Mabo and Wik cases, the implications of which have yet to be worked out. There have been nearly two decades of rodomontade about a treaty, with continuing argument. Elsewhere I have argued strongly that if we are serious about any kind of reparation, we need to avoid the oft-quoted Canadian model of a negotiated settlement (a continuation of the treaty-making process). We should look to the German models. Stanley Tipiloura, the Aboriginal ALP member of the Northern Territory Legislative Council has argued: "Compensation does not necessarily mean money. It means the creation of jobs, health services and so on." This notion is shared by several Aboriginal leaders.

John Howard, when Leader of the federal Liberal Opposition in 1989, declared, in the name of the just society, that there can be no special favours, no positive discriminations for any one group, especially not for Aborigines. He pledged repeal of the existing land rights legislation simply because no other group has such special benefits. More of this philosophy emerged from the Liberals and Nationals in the 1990s, essentially proclaiming that, as of today, all are equal and none should be advantaged over another.

The high, or rather, low-water mark of this philosophy is to be found in the federal government's official submission to the national inquiry into the separation of indigenous children. The Keating Labor government empowered the inquiry. Noteworthy is the terminology prescribed for the study: inquiry into the *separation* of children – not removal, not transfer, not the term used by indigenous Australians, namely, "the stolen generations". Separation is a nicer word, implying some degree of mutuality in the severing of these parent-child relationships, as well as keeping a door open to a re-uniting. Neither mutuality nor uniting was ever intended, or involved, in practices that began in Victoria in the 1880s and ended in New South Wales in the 1980s.

The Howard Coalition, succeeding Labor in March 1996, declared that "the government can see no equitable or practical way of paying special compensation to these persons, if compensation were considered to be warranted". The government also takes the view that in judging these practices, "it is appropriate to have regard to the standards and values prevailing at the time of their enactment and

implementation, rather than to the standards and values prevailing today". In the end, the present government has come up with \$63 million, not as reparation but as an aid to counselling and research services for those who were removed for what was believed to be "for their own good" all those long years ago, yesteryear, which had different standards.

The Herron-Howard pairing doesn't remember that the last of these "assimilation homes" for the removed ones closed in 1988, at Bomaderry in New South Wales. They also argue that removals were largely a state matter, hence the difficulty of financial reparation – yet the Territory was the heaviest remover, with the Retta Dixon Home in Darwin closing only in 1980. It hasn't occurred to them that this especial Australian gift of evil was as evil then as it is now. They can rant unavailingly that none of this was genocide. It was, and is. The Genocide Convention of 1948 specifically defines genocide as being constituted by any one of five acts, committed with intent, to destroy in whole or in part, a racial group. One of those five is "forcibly transferring children of the group to another group". We always assume that the attempt to stop a group from being that group must always be with malevolent motive. Nowhere does the international law, which we signed in 1949 (and then continued removing children), say that genocide is not genocide when committed with benevolent intent. The aim of the exercise was that Aboriginal children ceased being Aboriginal.

Never mentioned by the conservative side of Australian politics are the original reasons for legislation which attempts to truly protect, advantage or compensate Aborigines and Islanders. Not mentioned is the fact that no other group has such a disadvantaged history. In one short sentence, Howard obliterated – as did Canadian Prime Minister Pierre Trudeau in the 1960s – all indigenous personal, social, political, economic, cultural and legal history. The Howard-Trudeau "just society" proposition clearly infers that, as of a certain date, all previous histories and legacies are expunged to make way for, at best, a clean slate, or at worst, a reconciliation slate.

There are two implications of this philosophy, each with devastating consequences. Aborigines, like new immigrants, have "just arrived"; to share in the "just" and "equal" society they must compete on equal terms. All past violations are to be totally disregarded and therefore any form of atonement and compensation rejected. If the memories haunt, the remedy is simple: exorcise them. On election, Howard began a systematic campaign against what historian Geoffrey Blainey calls the "black armband" interpretation of Australian history. Howard sympathises with those "Australians who are insulted when they are told we have a racist, bigoted past". Priority should be given to health, literacy, and other practical programs. He asks, in generalised

terms (since he has no jurisdiction over state school systems) that syllabuses be rewritten to accommodate his view.

Of note was Australia Day 1997. Prime Minister Howard declaimed that Australia should not be "perpetually apologising for sins of the past". The Governor-General, Sir William Deane, in effect admonished him in an official speech, saying that the "past is never fully gone...it is absorbed into the present and future" and it shapes "what we are and what we do" – and unless Australia achieves reconciliation by 2001, "we'll enter the second century of our nation as a diminished people". Racism appears in many forms and not always as malevolent violence. In conservative politics in this country, it poses as democratic liberalism and humanism.

THE GIFT OF EVIL:

THE POLITICS OF PROPERTY

Andrew Riemer

I would like to say at the outset that the matter of property stolen or appropriated in time of war has never been a pressing concern for me, partly because my family did not have substantial assets, but more importantly because during the Second World War we sustained losses far greater than mere property – as did, of course, millions of people of all races, nationalities and denominations from one end of Europe to the other.

In the five years between 1940 and the end of 1944, most of my family was killed. Some died in death camps; others were buried under the rubble of apartment buildings when the Americans carpet-bombed sections of Budapest and Vienna. One of my father's cousins was killed by the Russians on the Eastern Front. No amount of compensation could reverse the loss or could have lessened my parents' grief. Nor, from their point of view, would it have been anything but obscene to accept monetary compensation for the dead, even if it had been offered. Similarly, revenge or the quest for retribution was always out of the question. Though they held no religious beliefs, my parents seemed to have heeded instinctively the injunction of the Gospels: they tried to forgive, even perhaps to understand, and certainly to put the past behind them, no matter how much they might have been tormented by anguish and despair. I cannot tell how far they succeeded, but I know that they tried to the best of their abilities to avoid repaying hatred with hatred.

There remained the far less significant matter of financial loss. My father was the co-owner of a small weaving mill. In 1943 it was seized by the Hungarian authorities, allegedly because its production was required to clothe the army, but everyone understood it to be a fiction for the expropriation of Jewish property and businesses. In the late 1960s my father was able to obtain a tiny pension from the Federal German government for the loss of his business because he could demonstrate that he belonged to something called the German cultural community or some such formula, and also because his former business

partner had settled in Germany after escaping from Hungary in the early 1950s. The Hungarian government did not, of course, offer any compensation, even though nominally it was the Hungarian state and not Germany that had seized the factory. I suppose I should add for the record that that minuscule pension ceased when my father died in 1976.

As far as I can see, there is considerable propriety in the state's offering compensation for financial losses suffered in consequence of its policies or those of its predecessors. I think it is to the former West German government's credit that its schemes of compensation embraced people such as my father, who was never a German citizen, though he had been educated in Germany. Of course, the pension he received was, from one point of view, risible; it was nevertheless a symbolic acknowledgment by postwar Germans of their communal, though somewhat remote, responsibility for his material misfortunes.

During the war years and again in the months before we left Hungary at the end of 1946, my parents suffered further financial or material losses. In 1943, shortly after the seizure of my father's business, we were obliged to leave the house in a suburb of Budapest which my parents had bought, foolishly perhaps, early in 1938. At least they were able to save most of their belongings by entering into the legal fiction of selling the property at no cost to the purchasers, a suitably Aryan family.

Some of those household goods survived the bombing and bombardment of Budapest. They included several paintings by minor though well-regarded late-nineteenth century Hungarian artists. In 1946, before my parents could obtain permission to leave Hungary, they were forced to donate to the nation all but two of those paintings. Those canvases were classified, absurdly it seems to me, as national treasures. In 1991 I fancied that I came upon one of them tucked away in an obscure corner of the vast gallery of Hungarian art in Buda Castle – though it may only have been one of a series of all-but-identical genre pieces which that depressingly prolific artist had churned out. I realised then how much I would like to have my father's pictures returned to me, not because they are particularly valuable or pleasing – indeed the one I saw struck me as hideous – but because they represent something very personal: a link with a fast vanishing and paradoxical past. Of course, there is no possibility of that: I have no documentation, no proof that those few canvases formed a part of what was effectively a bribe my parents had to pay in 1946 to leave the country, or indeed that the picture I saw in the gallery is the one I remember hanging on my parents' walls.

And then there is the house. During the visit to Budapest when I stumbled on that painting of a group of gypsies sitting around a campfire, I was determined to find the house which was the site of my

earliest memories. I expected it to have been demolished long before. But, curiously, it was still standing, though rather the worse for wear, and the short, leafy street – once I managed to find it – was much the same as I remembered it, except that it gloried in a new name. It was a curious, bitter-sweet moment. I stood looking at the two-storey villa which, in 1938, was the last word in ultramodern chic, at least in my parents' eyes.

As I was gazing at that archaeological site, I did not notice at first a middle-aged man raking autumn leaves in the front yard. He, however, grew suspicious, as anyone would of course, and called out to ask me my business. I told him in broken Hungarian that I was merely looking at the house because I had spent the early years of my life there. He grew extremely agitated. Impossible, he almost shouted. His family had lived there since 1943; the previous owners were called Riemer; they went to live in Australia and were all dead.

I won't bore you with too many details of that strange encounter. At one point, the man dashed inside and came back with a yellowing piece of paper, which turned out to be a transfer document dated 1943, bearing four signatures; my mother's, my father's and the man's parents'. He began pleading with me. His family had managed to hold on to the house through the blackest years of communism when most private property was under threat. It was their only asset. I tried to assure him that I had no intention of regaining the property. My life was elsewhere; I had no wish to live in Hungary again. I don't think he believed me – and to this day, I suspect, somewhere in the back of his mind there is the suspicion that I will turn up one day with a piece of paper ordering him and his family to vacate the premises.

Again, there is (of course) no possibility of that. At the time, 1991, the post-communist Hungarian government was addressing the problem of seized property. The consensus seemed to be that former owners would be offered financial compensation only, though already the Catholic church had had some of its extensive holdings restored to it. There was even talk of allowing the remnants of the great aristocratic families to repossess their lands. But all these proposals and rumours had to do with property expropriated by postwar governments; there was no question, at the time at least, of extending any future scheme to property seized before 1945.

Nevertheless, both unsustainable expectations and anxiety – even perhaps paranoia – were in the air during that autumn of 1991. One of my few remaining relatives urged me to lodge a document with the appropriate authorities concerning the circumstances of that forced pseudo-sale in 1943 – just in case, he said. By contrast, the obsequious and, it seemed to me, totally imperceptive owner of the small guesthouse where I was staying lectured me on the scandal of all those grasping Jews returning to Hungary to get their hands on property

which probably hadn't been theirs in the first place. I don't wish to exaggerate things, but it seemed to me during those weeks I spent in Hungary, and on later, much shorter visits, that commendable steps to right former wrongs were contributing to an already uneasy, suspicious and fearful climate at a time of rapid, and for many Hungarians, disconcerting social and political change.

And that made me wonder what I would do if, by some strange turn of events, it became possible for me to make a claim on that house which, by rights, is my property and had been occupied all along by a family that profited from my family's sufferings and the brutal racial policies of wartime Hungary.

The image of that anxious, resentful, even aggressive man raking leaves in the almost bare front yard, where walnut trees, I remember, once grew in abundance, kept coming back to me. There was nothing in his personality or demeanour to recommend him. He seemed to me both devious and stubborn. And yet, I couldn't avoid feeling a certain sympathy for him. I felt very strongly that in a curious way the house was his, that it was also the repository of his earliest memories. And besides, too many years had passed since my family had been, to all intents and purposes, evicted from it. His family had lived there for half a century or so whereas it was my parents' pride and joy for a mere four of five years.

I realised then, though I had realised it long before in a way, that I could not possibly do anything to dispossess those people. Of course, the decision was easy to reach: as I told the man, I no longer consider myself a Hungarian, only sentimentality and the fondness of the middle-aged or the elderly to dwell on the past took me back there. Nevertheless, on a broader moral or ethical scale, I would regard it as wholly improper to be the cause of further hardship and distress for that family. I am dismayed by reports coming out of the former East Germany of prosperous Americans attempting to evict the occupants of houses and apartments their families had once owned. In some ways that seems to me to be as morally questionable as the restitution of vast aristocratic estates which, I believe, is under consideration in the Czech Republic.

The only way I can see of closing an infernal chapter of the history of our time is by drawing a line under it – even though that might seem to fly in the face of fundamental concepts of justice. I do not feel obliged to love or even to offer the hand of friendship to the family in my parents' house. I hope, however, that the time which has passed since that bizarre encounter has persuaded them that their occupancy is secure. Sadly, what I have seen of the neurosis of contemporary Hungary makes me doubt that.

It is, of course, right and proper that a nation should attempt to make some restitution for crimes and outrages committed in its name

and with the connivance of many of its citizens. The insuperable problem, as far as I can see, is that any attempt to do so, especially many decades after the event, which threatens the security and livelihood of such people as the present occupants of my parents' house is likely to provoke distress and suffering among those who would also come to regard themselves as victims of injustice. The social, cultural and political consequences of that would be dire in my opinion.

I have no solution to offer on how the two imperatives might be reconciled. I can only speak from a personal perspective. If the Hungarian government were to offer me some financial compensation for the loss of that house – an entirely unlikely eventuality, I must add – I would be tempted to accept it as long as it did not impose financial or other burdens on its present occupants. Even in that case, nevertheless, I think I would be troubled by the drain on the resources of a nation attempting to survive a difficult and dangerous period of transition. Happily, I am certain that I shall never have to face making such a choice.

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AND BUSINESS - A C



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Photo - David Karonidis

Deborah Tarrant

In late 1997, a new business magazine was launched for women. Its editor is Deborah Tarrant, former Deputy Editor of *Good Weekend*. On Tuesday 10 February 1998, Deborah Tarrant addressed The Sydney Institute to explain the philosophy behind a business magazine for women and to air some of the ideas she had for it.

WOMEN AND

BUSINESS - A CLASS APART

Deborah Tarrant

Ever since I was asked to give this speech I have been asking myself if I am the right person for the task. I am not a business woman but a career journalist - and like so many journalists who specialise in a particular area - I have in a very short time become a "de facto" expert in the topic I am addressing.

Having said that, I would like to venture that my latest position as editor of a new magazine for business and professional women has proved one of the most intriguing and stimulating of my career. The major reason for that is the exhilaration and, if you like, the luxury of addressing a readership, a market, that has never before been addressed exclusively in this country. That's a rare opportunity.

Can this be true, you might ask as you think of the abundance of titles that flash before your eyes on a newsagent's shelves with all their glossy covers and fluorescent cover lines. And that's not to mention the ones that fall free from almost every newspaper you might purchase these days.

Certainly there have been magazine titles that have been directed at women as aspirants to senior career positions or management levels and there have been magazines aplenty in the past decade which have, if you like, nurtured the notion of self-sufficiency and independence in women. No magazine, however, has until now addressed women who have made it into top jobs and the senior executive corporate positions. Nor has a news stand publication in Australia been created for women who not only have a good idea and begin a small company, but against the odds and the statistical evidence, sustain a small business and continue to build it.

Part of the reason those women have not till now been addressed is because they were still getting there, still figuring out the course. They were reading too many stories about this impenetrable barrier called the glass ceiling, at the same time chipping and chiselling away at it. There is no central gathering point for data on business and professional women in Australia. Instead, there are many.

There is the Office for the Status of Women which processes and interprets statistical data. There are countless professional bodies which look after the needs and specific issues for their particular industry groups. And, there are the many highly active networking groups which offer a point of contact and camaraderie for members, a supportive environment for members who frequently still find that missing at work. One of the great unofficial sources of information on women in management are those flourishing executive recruitment firms which make it their business to keep tabs on likely candidates to fill senior management jobs and board positions, under the client directive "we need a woman for this job".

Despite the private research undertaken by the Charlton Group before committing itself to setting up the new magazine I now edit *Business Class*, and the essential support of foundation advertisers, the response to the first issue in November was incredibly warm. We knew we had tapped into a new market.

So in a moment of inspired haste for the second issue of *Business Class* we undertook to compile a list of the 100 most powerful women in business in Australia, and even though we knew they are out there - highly intelligent, highly educated and hard-working - I have to confess that even we were amazed by the range of contenders. I think we ended up publishing some 130 names and, time and research staff permitting, could have doubled or trebled that without too much effort. And we're still apologising to those we couldn't fit on.

A glimpse of the big statistical picture on women and business in Australia goes like this:

- There are 146,300 women who are managers or administrators in Australia - that's four per cent of all employed women;
- Six per cent of board members in this country are women;
- Only one per cent of women board members are executive directors, 7.3 per cent are non-executive directors;
- Almost 393,300 women are own account workers - that is sole proprietors or employers working without employees; and
- Over the past decade the annual growth rate of female-owned small businesses was over three per cent, one and a half times the rate for men.

Without reading out too much fine detail, the figure we calculated for managerial and professional women in this country was around 650,000. And an interesting figure turned up in a story I commissioned the other day. It's from a study carried out in 1996 at Edith Cowan University in Western Australia. After polling 250 of Australia's largest companies it was found that 93 per cent of overseas postings were filled by men. I'll come back to that later.

As the editor of a nascent magazine for business and professional women, in October 1997 I looked at the statistics and the number of

highly qualified women graduates emerging from our education institutions. I'm talking about women who are not satisfied with one degree but as a matter of course women who complete an MBA and possibly several other post-graduate courses as well. I asked myself what, on the news stands, were these women reading?

Were they absorbed by Fergie's secret love trysts? Or Daniil Minogue's latest encounter with cosmetic surgery? Did they really want to know about Pamela Anderson's babies? Australia has a great magazine reading tradition, but there is a generation of women now, that is far too educated, and too analytical, for the publications on the shelves. Their needs are not being met. Certainly, to an extent, these highly qualified women are represented in the readership profiles of existing business publications which to date, with several very notable exceptions, have been produced by men, for men, about men.

Due to a deficiency at the very highest corporate level, women are rarely included in regular business magazines. Conditioned as we are by recent social change, it is still hard when you pick up the *Australian Financial Review* and read the story not to exclaim: The new head of Apple Australia is a woman! I find it heartening however that when presented with an opportunity to highlight a woman both the *Australian Financial Review* and *Business Review Weekly*, the major business publications in this country today, recognise the market, seize the moment and at least give her a decent run.

What they are acknowledging is a shifting culture, which is what I really wanted to talk about today, the new face of business, and that face today is quite often female - which, of course, is where *Business Class* magazine comes in. The creation of the magazine by Peter Charlton was in response to this shift in the workforce, this fresh emphasis, which has generated a whole new set of issues and needs. It is not a shift that only has an impact on women. That is far too simplistic. But in this change, women undoubtedly are the catalysts.

I am not going to go into the nuts and bolts process of creating a new magazine. But rather I'd like to explain these forces that brought it into being. To some extent I will do that by referring to stories or research we have done which has been featured in the first three issues of the magazine.

The signs of a shifting culture are constantly with us. Three newsworthy and completely unrelated events occurred not long after I first began pondering the content of a publication for business and professional women. They provide an indication of the fertile territory we're in here.

On 15 October 1997, in a breakfast address to the Women Lawyers' Association, the Honourable Justice Catherine Branson of the Federal Court of Australia set the Australian legal community abuzz. Over a period of about three weeks after her speech, our editorial

team's attention was repeatedly drawn to her address by those who had heard it, or heard of it. Naturally we were curious.

When we got our hands on a copy we discovered that Justice Branson had simply reported the hard facts about women's professional progress in the legal community, or, to use her words, the issue of women being in the legal profession without being at its heart. What she had also done was quote an unnamed male member of the legal fraternity, suggesting that political correctness was unduly influencing the appointment of women and other groups to the NSW Supreme Court - as Justice Branson had already pointed out in her speech, in the life of that court 180 justices have been appointed to it. Only three of those have been women.

In a profession where we are given to understand that women have made huge inroads, where women represent more than half of today's law graduates, it seemed extraordinary that a male member felt ill at ease even with their disproportionate level of appointment to the judiciary. The remarks of her not-so-learned friend, as Justice Branson said, merely served to indicate that myth is frequently impervious to fact. (At the request of Justice Branson, I have not repeated her controversial quote.)

The second, already reported, factor which I'll draw to your attention, is the arrival late last year of the ANZ Banking Group's new managing director John McFarlane and his public exclamations on the group's woeful record in recruiting and developing senior women executives. At the time, the bank had one woman on the board and was anticipating the arrival of Elizabeth Proust as human resources manager. "Fifty per cent of the high potential people in this place are women," John McFarlane said, "And we've got to make sure they are exposed to the best opportunities." He referred to the failure to promote those women in the past as an accident of history. Well, there are a lot of those around! But they're not irreversible. Observations about the slow professional progress of women in Australia are common among men who have worked in the United States or, interestingly, in Asia.

The third incident I wish to bring to your attention happened in the US. It was the explosion of grief and confusion over the resignation of one of the world's most senior business women late last year. Brenda Barnes, the president and chief executive of Pepsi-Cola North America, quit her job announcing she intended to spend more time with her three young children. Barnes' departure from her \$2 million a year position served to highlight one of the biggest issues facing corporate women and corporate men. That a huge talent resource of highly educated and capable women will be lost, or greatly diminished, if changes are not made.

Those three examples serve to show just a few of the issues that

require exploring and exposing in the media. Changing the structure of the work to accommodate women as resources is no minor task.

You've heard the key phrases before: finding the balance, achieving some flexibility, not wearing that corporate suit like a straitjacket. But it is the way of achieving that balance for both men and women that is behind the new face of business. Business would be simple if it was just about revenue, but it is about people. The new face of business is not just about having on-site creches or paternity leave...although these were essential early achievements. It is about balancing the level of job satisfaction – and by necessity that includes flexibility – with the level of productivity. It is about affording employees the time to be whole people. This is not news, but it is still being addressed in a confused and haphazard way.

Companies and corporations, employers in general, may at least pay lip service to it. Some may want to actively do something about it. It is, after all, about motivating staff and ultimately about making them do a better job for you, as well as allowing them an improved quality of life. Women in the senior management levels have brought with them new values and requirements.

The confusion is apparent. In the second issue of *Business Class*, Carmel Dwyer wrote a story, headlined: "What men really think about working with women." In this story, some very senior men were honest enough to speak up. Special mention here should go to David Jones' chairman Dick Warburton for admitting he sits on another board where women still simply are not wanted. "There's a feeling this is men's work," Mr Warburton said, going on to point out that you don't find this attitude among young men. Clearly, there's a communication problem that may not be fixed till the next generation which for many of us, of course, is far too late.

In the same story, Tony Berg, the highly successful managing director of Boral, was very brave. He said what every working woman does not want to hear. "Could it be," he asked, "that women are simply not sufficiently ambitious (to make it to senior management)?" I'd like to take the liberty of answering that one: NO. Boral, however, deserves credit for instigating special programs to train women for management.

It's not an issue of whether or not women are sufficiently ambitious – to be honest some are and some aren't. Some are more capable than others. History tells us that ambition is not gender specific. Do they want to participate in a male culture? No. Do they want to contribute to a congenial work culture? Yes, but one that accommodates their needs which are not always family orientated.

The most recent Australian Bureau of Statistics figures show an increase in one child families from 9 per cent in the period 1980-1984 to 17 per cent in 1997. And in data collected by the Australian Institute of Family Studies managers, professionals and para-professionals have

a much higher rate of childlessness – around 18 per cent of them don't have children. We're still trying to ascertain if that is cause or effect.

When we began this magazine project we decided to include a books page, and at the bottom of it, with the help of Dymock's Professional and Technical bookshop, we list the Top 10 business books each month. As I've edited this list, I've observed the emerging theme. Among the intriguing dissections of companies, the exposes of management consulting firms and ever-present "how to" books, there's a new genre in what we might call disgruntled executive writing. The theme is not so much a cry for help as a quest for meaning. Titles like:

- *Reworking Success: New Communities at the Millennium* by Robert Theobald (New Society Publishers). This book suggests a re-evaluation of values and a call for change as we face a new millennium.
- *The Hungry Spirit* by Charles Handy (Random House) in which the author argues in the face of social and business change that we need values more sustaining than the values of the free market.
- *Approaching the Corporate Heart* by Margot Cairnes (Simon & Schuster), an Australian-based leadership strategist, who claims the old warrior ways of business are killing people emotionally and spiritually and don't make business sense. Her book has cover endorsements from the internationally best-selling author Stephen Covey and from BT's managing director Rob Ferguson.

We can speculate what may be the reason for these titles, apart from their commercial potential. They may be balm for those still suffering the ill effects of the 1980s excesses or they may be navel gazing at the approach of a new century, perhaps both. It would be too easy to glibly dismiss it as the fallout of the New Age on the business community, or pre-millennial anxiety. It is a response to a shifting culture.

Perhaps the book that resounded the most, released in Australia late last year, is the rather depressingly titled but hugely successful, *When Work Doesn't Work Anymore* by Elizabeth Perle McKenna (Hodder & Stoughton). The author, a former publishing executive in New York, examines what has happened to women who have pursued the traditional male definition of success – a system that fails to integrate the realities of working women's lives. Clearly this one struck a chord. I was informed about its imminent release by a keen rival publisher looking for similar ideas to exploit in this market. In what is apparently a cathartic book, Elizabeth Perle McKenna, for whom work didn't work anymore, suggests solutions for the workplace. Work, she says, must be value driven and that includes having good working environments, having responsible growth and incorporating balance and respect in the workplace. She calls for work that is flexible beyond

the "band-aid" kind that makes the person exercising the option subject to the professional stigma of not putting work first. This, of course, allows companies to hold on to their valued employees. Also, we should be able to come and go from the work force without the lineal career path that once used to end with a golden handshake.

There is no shortage of evidence to support this author's arguments. Women are opting out of corporate life, but not business life, due to systems which do not support them, this is why we have a preponderance of women running their own businesses. Last weekend in an address to a finance industry symposium, the Minister for the Status of Women, Judi Moylan, cautioned the finance industry against the loss of women executives to off-shore enterprises if their requirements for flexibility are not met.

And this is where that statistic I mentioned earlier on – 93 per cent of overseas postings being given to men – becomes significant. The letters that arrive in our office also support this. A typical one came from Kathy Campbell, a professional woman in her mid-30s from Blackburn Victoria who wrote to us:

My generation grew up believing we could do or be whatever we wanted. We see a corporate world which makes unreasonable demands on our time and has lots of power games. Why should we want to be part of that? We are prepared to make sacrifices in terms of earnings and power to have a more balanced and less stressful life. For us it has meant working part-time, starting our own businesses, declining promotions or moving across to small consultancy firms.

Professional men our age on the other hand generally still expect to be in a full-time job for life, often as the primary income earner in a family. They have been conditioned to be competitive and ambitious and to want and expect success. Perhaps because of this, they have less choices than we do. They just keep climbing up that ladder and perpetuating the system.

If I can speak personally for a moment, I too have left senior and high-profile positions within Sydney newspapers because they made extraordinary demands and no allowances for my role as a mother. One of the questions I was most asked in interviews when the first issue of *Business Class* was put on sale was: why do business women need their own magazine? At the time I had to point out our editorial policy was not to operate to the exclusion of men but to offer a fresh approach, a look at the issues that were not being scrutinised in the existing business media or women's magazines.

To some extent we have done that already with stories on the reality of women and corporate board appointments; what happens to relationships in job relocations; whether or not MBA courses are structured to women's needs and if they achieve the desired results, and so on. Clearly the shifting culture has generated the need. Structures within corporations need to be revised and expert advice sought to

make the transition easier. Some big corporations have taken positive action to work family policy into their human resources strategies. They include Westpac, Lend Lease and the NRMA. For many others it is still just rhetoric.

While change management has become a catch phrase for the 1990s, it is usually associated with the dreaded negatives of dealing with downsizing and retrenchment. But these are not the only sorts of change to be dealt with.

Generally speaking, women are great communicators. It is said to be one of their greatest strengths, a positive in the workplace, and it is in communications and human resources positions frequently that they excel and proliferate. One of the messages that is coming through from the self-employed and those running their own companies is a sense of isolation. There's an "at last there's somebody out there" message that echoes through correspondence received in our office.

Another sign of their need for communication is there. It's the tendency of those promoted into management positions in business and the professions to seek out the company of other women and it has created a boom in women's networking groups. There's a networking frenzy going on out there. They're at breakfasts, lunches and dinners, and weekend seminars.

These gatherings are not used as just a means of exchanging business cards and making useful contacts. For many attending they offer a genuine sense of community, a feeling of belonging in a world where they are still waiting to feel welcome.

One of the writers of several articles in the early issues of *Business Class* pointed out to me that while helpful, there's a fundamental flaw in this networking frenzy. "They're all just talking to each other," she said. "If men and women are to work together effectively, they also need to network together." This brings me back to the title of this speech. If women and business are a class apart, then they should not be. The levels of competition to be met today, the productivity and the diversity required to sustain business, depend on their inclusion. Let's not turn the business world into a metaphor for that old cliched version of the Australian barbecue with men where it's all happening round the fire and women talking to each other in the kitchen.



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Photo - David Karonidis

Ted Evans

As Secretary of the Department of the Treasury, Ted Evans plays a crucial role in the ongoing process of economic reform. In the wake of the Asian currency crisis, Ted Evans addressed The Sydney Institute on Tuesday 17 February 1998. Tackling the most important issues head on, Ted Evans spoke on Asia and the IMF and the outlook for Australia.

ASIA, THE IMF &

AUSTRALIA

Ted Evans

Less than a year ago, there was general agreement around the globe that the outlook for the world economy was more promising, in almost every respect, than for many decades. In less than six months, that rosy prognosis has given way to an equally widespread consensus that world economic growth will slow significantly – and with the range of serious forecasts extending to predictions of world deflation (not a high probability but worth noting as indicative of the extent of concern).

Events in Asia were central both to the development of the earlier euphoria and, more so, to the extraordinary turn of events. I would like tonight to address four aspects of those developments:

- why the Asian crisis occurred in such an unheralded manner;
- in what way has this crisis differed from its predecessors;
- what has been the role of the IMF and, in particular, are criticisms of its performance justified; and
- what policy lessons emerge, both for the international community and for Australia.

Some of these issues, particularly aspects of the first two, are already well documented and I shall therefore cover them only briefly by way of background to the other two issues which will form the substance of this address.

The Asian crisis

Among the many comprehensive reviews of recent Asian developments I would like to draw on a recent one from Stanley Fischer¹ which I believe summarises the developments neatly. He notes as the key domestic factors leading to the difficulties:

- "firstly, the failure to dampen over-heating pressures..."
- "secondly, maintenance of pegged exchange rate regimes for too long..."
- "thirdly, lax prudential rules and financial oversight".

Fischer continues:

As the crisis unfolded, political uncertainties and doubts about the

authorities' commitment and ability to implement the necessary adjustment and reforms exacerbated pressures on currencies and stock markets. Reluctance to tighten monetary conditions and to close insolvent financial institutions has clearly added to the turbulence in financial markets.

He has a lot more to say on the topic, including on the contribution of developments in the rest of the world, but the essence is in the points above. A question immediately arises: namely, if the issues can be so readily specified after the event, how could such a momentous development have escaped prediction?

Herein lies one of the policy lessons to which I shall return later; but, briefly, the answer to the question just posed turns largely on the distinction between what is foreseeable and what is forecast.

It happens to be a fact that virtually all of the shortcomings in each of the individual Asian economies affected by recent developments had been foreseen and had been the subject of comment and debate for some considerable time – though often with a reluctance to accept as weaknesses policies that had been perceived as strengths. To mention but a few, it has been well known that:

- banking systems in some countries have long been potentially vulnerable because of links (to government and/or business) which limited the exercise of prudent commercial judgement;
- government support of favoured enterprises by way of guarantees or regulation involved unquantifiable contingent fiscal liabilities;
- capital inflows had expanded rapidly in recent years and had become increasingly short-term;
- fixed exchange rate regimes are increasingly vulnerable in a world where even the major exchange rates move by sizeable amounts in markets which are prone to overshooting.

Yet that knowledge has not led to forecasts of the type of developments that have occurred; and the performance of the Asian economies as a group, if not individually, continued to defy the critics. The difficulty is that forecasting requires more than foreseeing the probability of an event; in the first place, it requires that a timetable be attached to the probability. This distinction is well enough known to have led to the longstanding comment about economic forecasters that they "have forecast ten of the last two recessions". That type of track record leads to caution in forecasting: and that caution is understandably prominent in situations like that in Asia for the past several decades where the discussion of miracles has created an associated expectation of infallibility (not of forecasters but of policy-makers).

Moreover, economists tend to look for linear responses to shocks, but the reactions of markets are decidedly non-linear. If the underlying economic foundations contain structural weaknesses, even small shocks

can be magnified by markets into substantial crashes. Thus, even though the IMF had forecast the events in Thailand more than a year before their occurrence, this did not lead to a forecast of the ensuing contagion.

In short, it is probable that given a similar circumstance in the future, we could not rely on economic forecasts to predict something like the Asian crisis – but let's revisit that when we talk about policy lessons.

A new type of crisis?

In the extensive literature that has developed since the events in Thailand began to unfold in early 1997, considerable emphasis has been put on these developments being significantly different from what has been referred to as the classical balance of payments crisis of earlier decades; and related to that emphasis has been the development of renewed criticism of the IMF's role.

While there are several facets to this, a common argument put is that this is more of a financial than a fiscal crisis; and in particular, that Asian fiscal positions have been in good shape and public debt low. Rather, the argument goes, the present problems lie with private sector debt and with inadequate financial systems.

Most of this commentary is well based in fact (though I shall return to the question of fiscal positions in a moment) and there is not the slightest doubt that the weaknesses of domestic financial institutions, supervisory regimes and inadequate commercial legal infrastructure have played a substantial role in the extent to which the crisis has both developed and spread. Recognition of that is important in developing solutions; but emphasis on differences might also mask the importance of fundamental similarities with the past which are equally important in seeking solutions.

In particular, a starting point in analysis should be that a common feature of both the classical and the new style financial crisis is overexposure to debt. Whenever an individual, an enterprise, or a country decides to increase its current control over resources (potentially, to increase its growth) it immediately takes on an obligation attached to which are certain expectations. The debt contract is done at a price, related to the risks for both the borrower and lender and both become vulnerable from that time onwards – vulnerable to both their own subsequent actions and those of the other party.

All of this is well established but equally easily forgotten, not least because the borrowing process works smoothly enough for most of the time – and is an essential part of the growth process. But it can come unstuck, and is prone to do so whenever artificial elements enter into the calculation of risk and its pricing. Those can take several forms, the most prominent being:

- the intervention of government, either as the borrower, in the classical case, or as the guarantor, in the Asian case;
- the intervention of government, not in the borrowing process as such, but in a way which influences the prospective return on investment and hence the pricing of the borrowing: either directly by subsidies or tax breaks or, less transparently, through the direction of financial intermediaries and/or the guaranteeing of related activities;
- the intervention of government, by creating the expectation that exchange rates will remain fixed (or move only within narrow limits) but without the policies to deliver on that expectation².

What has emerged in the Asian situation has been the prominence of such indirect intervention – in particular, through the close association of government and financial intermediaries and the implicit guarantees that go with it. This has been a longstanding feature of some of the countries now with problems and, of itself, has also been a contributory factor to the inadequacy of the supervisory mechanisms put in place.

More recently, as competition among the Asian economies to attract investments has intensified, the resort to intervention in the pricing of investments has also escalated. And the prevalence of eager, and imprudent lenders in the rest of the world – again, in retrospect, inadequately supervised – added to create a volatile mixture.

I have elaborated this rather simple message a little to bring out two points:

- firstly, that the sound fiscal positions of the Asian economies – universally acknowledged as one element underlying the so-called Asian miracle – may not have been as sound as generally accepted if properly specified, ie while the fiscal positions look sound on conventional measurement, that measurement does not take account of contingent liabilities; including importantly, in these cases, those arising from the implicit and explicit guarantees associated with the types of banking regimes that have developed; and
- secondly, the fact that the debt is predominantly private – having been undertaken to finance private investments – is of no relevance if the pricing of that investment is severely distorted by government incentives, regulation or exchange market intervention. It does not take a socialist to conclude that borrowing for public sector purposes need not carry greater costs or risks than borrowing for private sector purposes when the latter is undertaken under artificial conditions.

These two points take us back to the unfinished and unsatisfactory Australian debate in the 1980s on the so-called "twin deficits" hypothesis. Underlying the inability to find a satisfactory conclusion to

that debate was inadequate attention given to the role of investment and the conditions in which resource allocation decisions are taken. In other words, dealing with the savings side of the savings/investment imbalance will not provide the complete solution to an external imbalance if serious distortions are left on the investment side.

Again, in turning to lessons below, I will pick up both the fiscal and investment issues.

The role of the IMF

The IMF has long borne the brunt of criticism in its relationships with countries in difficulty and those criticisms have heightened in the Asian episode. The latter should not be entirely unexpected as it is not all that difficult to find some shortcomings in any attempt to deal with a crisis situation – particularly after the event. However, for the most part, the criticisms have no more substance than they have had in the past.

The range of complaints about the Fund's performance is wide but two large issues continually reappear, albeit at different ends of the spectrum. Both of these are worth revisiting in the current situation and I shall do so briefly.

The first is the claim that "Fund programs" lead to a severe slowing of growth and that the burden is borne heavily by the most disadvantaged in the community. Those who make these criticisms seem to be unaware that the Fund is prohibited, by its Articles of Agreement, from deliberately pursuing such a course. The Articles require the Fund:

- (v) [to provide members]... with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. [and]
- (vi)... to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The seeming conflict between these objectives and what emerges in practice arises because it is invariably the case that when the Fund works with a member country in such a circumstance growth invariably fails and hardship does fall upon the most disadvantaged within society. But to draw a link between that and the "Fund program" is to make the most simplistic error of assuming that correlation implies causation. The fact is that the slowing in growth and its associated effects have by this stage become inevitable; they are the consequence, not of the "Fund program", but of the policies that have been pursued in preceding years and which have led to the crisis; and the role of the Fund as required by its Articles is to so advise the country as to ameliorate those effects – not to worsen them.

That is not to suggest that the Fund, in its policy advice, is infallible. No one argues that and there is clearly scope for different

judgements on specific issues. For example, the recommended fiscal stringency may initially have been overdone; and the proposed reforms of the banking sector might have paid more attention to the constraints imposed by its rudimentary nature – but these are second-order issues compared with the shortcomings in policy implementation.

The second criticism, often coming from the other end of the ideological spectrum, has somewhat more substance. It asserts that the existence of the Fund and its obligation to assist members in external difficulties creates a moral hazard in that it encourages both borrowers and lenders to be less vigorous in their due diligence processes than they would be in the absence of such a "last resort" facility. While there is undoubtedly some theoretical substance in this, it is an empirical fact that countries will go to extraordinary lengths to avoid resorting to the Fund's facilities. It is thus a little fanciful to imagine countries deliberately getting themselves into such circumstances because of the existence of the Fund (though perhaps the same could not be said about lenders).

What is more believable – though it is not a criticism that I have seen given much attention – is that the Fund's existence leads to a moral hazard in another sense. Namely that, while it is the Fund's responsibility to assist member countries in external difficulties it has a more important responsibility in helping countries avoid such difficulties. This is widely known and it might be argued that the knowledge that the Fund is doing this (ie, undertaking surveillance of its members) will of itself contribute to an expectation that economies will be well governed: or, if not, that the international community will become aware of bad performance, through the Fund's activities.

If such an expectation exists then it must be conceded that there has been on many occasions, including in respect of the Asian economies, a failure of the Fund's surveillance processes. This does not necessarily imply a criticism of the Fund, *per se*, but a comment on the total process, including the response of governments in light of Fund advice – it is therefore related to the effectiveness of Fund surveillance. Herein lies the final, and most difficult, lesson.

Some policy lessons

To the extent that there are differences between the Asian crisis and those of the past, they arise from the importance of structural issues: particularly the importance of sound legal and financial systems – which means systems that are both free to operate on a commercial basis and subject to effective prudential supervision. But there are wider lessons than that and they derive, not from the differences in those crises, but from longstanding issues related to good governance in the presence of debt. Picking up the points made earlier, there are important issues related both to the climate in which investment

decisions are made and, not unrelated to that, the appropriate interpretation of fiscal positions.

On investment decisions, it is clear that Asian countries have repeated the mistakes of many of their Western counterparts (in many of which, in varying degrees, those errors persist). The desire to give government preference to particular investments – rather than to get the overall economic climate right – is a hard habit to shake. Though many governments now see the problems in attempting to "pick winners" they nevertheless lean towards policies which seem more designed to pick losers. The most obvious example of this is incentives given to investments on the basis that they would not otherwise occur.

The upshot of such misallocation of resources through poor investment decisions is that savings are squandered on projects with inadequate returns and, as we have seen in Asia, even in countries with high domestic savings, the result becomes an external account problem.

While there may be no apparent fiscal problem in such circumstances, when the policies become unsustainable (for whatever reason) there are invariably pressures for the cost to be picked up in the fiscal accounts. If the mechanisms used to create the investment incentives include the direction of lending via the banking system, while that system remains under implicit or explicit government guarantee, the danger is extremely great – the more so because its magnitude is hidden until the crisis occurs.

The lesson in this area is one of increasing transparency: including by substantially improving fiscal accounting. This must extend beyond traditional cash accounting to pick up balance sheet items including, most importantly, contingent liabilities even where they cannot be quantified. Recent developments in New Zealand and Australia (including by Australian State governments) are now at the forefront of world best practice and must form part of an improved surveillance regime within the IMF (which now has responsibility for government accounting standards).

It is now clear that that surveillance regime must be enhanced in many other respects. This has been recognised for some time though not advanced sufficiently to have precluded the problems that have arisen in Asia. We should not need further prompting.

As indicated above, the surveillance shortcomings lie not in recognising the problems – though much could still be done through greater transparency, particularly in respect of more information on the standing of individual financial institutions and developments in commercial property markets (which are so often the route via which financial intermediaries and others get into unsustainable positions). But the main weaknesses in the surveillance process lie not in information shortages, but in having the available information, and the analysis based upon it, converted into adequate policy action.

Here the difficulties lie both in the ever-present problem of governments' being unwilling to act outside of their preferred timetable; and the shortcomings of the economics profession (including its policy advising arms) in making a strong case in convincing governments otherwise. One element of that is the forecasting problem identified above ie. the problem of knowing when to convincingly convert a probability to a forecast.

It is difficult to know whether there will ever be an adequate solution to the forecasting problem. A long series of crises in different parts of the world (none of which was forecast) ought to convince us that until better forecasting techniques are available, policy cannot be operated on the basis of forecasts alone: the heavy concentration on forecasts, by both governments and markets, may have been one of the most unhealthy developments of recent decades. Policies must be framed against a presumption that shocks will occur; to minimise vulnerability, policy must ensure that structural weaknesses are continually addressed: this, moreover, is the information that market participants really need, not forecasts.

Such an approach is well within the capability of policy advisers and, increasingly, is being practised in the more advanced economies. The medium-term framework of Australian fiscal and monetary policies and the concentration of structural policies upon continual and ongoing reform provide the only real armoury so long as external shocks remain unforecastable.

For the Fund, the challenge will be to garner sufficient political support to make its surveillance activities more effective. Greater transparency will be a key element of that. Whatever its shortcomings, crises like the recent episode cannot be handled other than by the Fund. The Australian government has stressed this at every opportunity; and, signalling its confidence in the Fund, Australia has been one of only two countries (the other being Japan) willing and able to provide associated financial support to all three Asian countries which have called on the Fund's assistance. The continuing criticisms of the Fund display a fair deal of academic rigour combined with a greater dose of political naivety.

For Australian governments, both Commonwealth and State, the lessons are clear:

- sustaining fiscal surpluses until debt levels are judged adequate; and
- heightened pursuit of structural reforms, to yield better returns on investment, improve competitiveness and minimise both internal and external financial vulnerability.

This has been the focus of current government policies.

The Asian crisis will slow the growth that otherwise would have been obtainable in Australia and, as forecast, put pressure on our

current account. This will not be of concern providing the markets – those from whom we borrow to sustain our growth – understand that we have the important structural reform priorities right.

Endnotes

1. Stanley Fischer, "*The Asian Crisis: A View From the IMF*"; address to *The Midwinter Conference of the Bankers' Association for Foreign Trade*; January 22 1998, Washington D.C
2. It is the caveat that is important here. Fixed exchange rates can be highly successful, as the case of Hong Kong shows, provided they are backed with adequate domestic policies.



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*Helen Irving**Rodney Cavalier*

Photo David Karomilis

Helen Irving, academic and author of *To Constitute a Nation* (Cambridge 1997) and Rodney Cavalier, Deputy Chairman of the Centenary of Federation Council, were not delegates to the 1998 Constitutional Convention. However, they are well acquainted with constitutional issues as Australia approaches its first century as a nation. On Tuesday 24 February 1998, they spoke for The Sydney Institute to reflect on Australia's federation, how the nation came about and what is planned to celebrate its first one hundred years.

CELEBRATING

FEDERATION

Helen Irving

On 1 January 2001, in less than three years time, Australia will reach the Centenary of Federation: the union of six colonies into one "indissoluble federal Commonwealth," as the preamble to the Constitution puts it. I want to talk tonight about the role of the historian in the celebration of the centenary.

This centenary is, indisputably, an historical event. It is, after all, a moment – unlike the Sydney Olympics, for example – that is built explicitly around something that happened in the past. The Centenary of Federation is historical, of course, not only because it refers to an event that happened one hundred years ago, but primarily because it has particular historical significance.

The Federation of the colonies created an entity that was at the time, I believe, a nation rather than a state, and others believe was a state rather than a nation – but, whatever it was, it was an entity with the potential to become fully independent, to be a recognised member of the world of states and nations, a player on the international stage. This entity – the Australian Commonwealth – had, and developed, a distinctive political character, in many ways a unique character, and it has had a profound impact upon the lives of Australians.

No Australian then, or since, has been unaffected by this event and no Australian historian can possibly be indifferent to it (although, it might be noted, a couple of histories covering the turn of the century, have been written in recent times, in which Federation is little more than a passing footnote¹). Why this has happened is itself part of the story of the way in which history is embedded in its own present, as much as it is in the past. I will come back to this.

So what should the role of the historian be in the events leading up to and surrounding this Centenary? I am going to suggest several positive roles, although first I want to say something about what I believe the historian's role should not be.

First, the historian, *qua* historian, should not be a judge: historians should not research, or write history principally as a moral

discipline. That is to say, they should not – in my view – take as their point of departure the question of history's guilt or innocence, or whether the events they are researching are good or evil, whether the actors were perpetrators or victims. In the words of E.H. Carr: "The function of the historian is neither to love the past nor to emancipate himself from the past, but to master and understand it as the key to the understanding of the present."²

Historians should, in my view, attempt what the German historiographers early this century called "Verstehen", effectively putting themselves in the shoes of their subjects, trying to see the world through the eyes of the past, recreating both the material and mental contexts in which their subjects were situated. What is it these historical subjects were trying to achieve? What did they think about themselves and their world? What choices were they confronted with, and why did they choose one thing rather than another?

This approach to historical method runs against both the determinism of marxism and the more recent post-modern view that the historian cannot discover or understand the past, because there is no factual past outside the historian's own consciousness: the historian makes the past, and there is no chance of stepping into another's shoes. I am only too aware of this latter approach, but I am not too concerned about it. Of course, the historian shapes his or her material, but I am absolutely certain that I did not invent the story of Federation, that there are facts to discover (and there are even pictures of them) and that trying to step in to another's shoes is at least better than not taking your own shoes off at all.

My concern is with the polarisation of history into good and evil. This approach has a long tradition, arising not only out of Marxist historiography (although Marx himself rejected it), but also out of the Whig triumphalism of the nineteenth century. In Australia, good and evil have long been a sub-text in history; the so-called "black armband" view of history is simply the corollary of a long period of triumphalism, of history as the story of great deeds and forward progress. It is not a new form of history, so much as an old form in which the baddies this time have their turn at winning.

The moral *a priori* is, of course, not exclusive to history. For a good part of the nineteenth century, at least in Britain, art, even architecture was evaluated according to its moral qualities, as much as, if not more than its aesthetic qualities. The good or bad effect of a work of art on the viewer, and not infrequently, also the moral character of the artist, were stressed. If we can now see this approach as a little bizarre, as perhaps missing the point of a work of art – which, with some exceptions, we now generally accept to be an aesthetic point – we can also recognise that there may be other ways of looking at history.

A very great deal of Australian history has been written which

captures these other ways of looking and writing. Even Manning Clark, who has often been portrayed as *the* perpetrator of the black armband, wrote complex, subtle and impartial histories. He was a great sermoniser – he'd declared that history was a struggle between good and evil, a story of inevitable tragedy brought about by the flaws in men – he was a theologian *manque*, but the histories he wrote very frequently tell a different story.

A simplified approach, in which the point of history is seen as an examination of good and evil, has, however, been in circulation for some time. We all know the debates that have gone on in the press. Let me give you another type of example – an anecdotal example, from my own experience. I work on Federation history, and among other things, I convene a committee called the 1901 Committee. When that Committee was launched in 1996, several of my colleagues explained their reluctance to come to the launch to which they had been invited, on the grounds that they were doubtful about whether the Centenary of Federation should be acknowledged, let alone supported or celebrated. Federation was seen as a morally doubtful subject.

A good part of this attitude, and of my original question about the role of the historian in the Centenary, arises out of the experience of 1988.

A deeply disturbing sense of failure surrounds the Bicentennial. It has become – and I don't disagree with a lot of the criticism – the antithesis of everything we now want the Federation Centenary to be. The whole 1988 show, it now seems, was a failure. There was too much money spent, too much state involvement, too much triumphalism, too many ugly products produced; it was too brash and loud and nationalistic; it overlooked the Aboriginal perspective on 1788; it swept the political issues under the carpet. Or, for others, it was too apologetic, not sufficiently confident and achievement-oriented.

Some commentators acknowledge an almost "desperate" attempt on the part of the Bicentennial Authority to draw everyone into the celebrations and yet, they say, despite the good intentions, the festivities "never ceased to exclude some people and to engender pariahs".³ Many commentators subsequently expressed discomfort with the whole show: uncertain whether it should have occurred at all, uncomfortable not only about what took place, but also about the fact that people were uncomfortable, about the moral ambiguities and dilemmas that people were drawn into.

Historians participated in the Bicentennial on a very large scale. They worked together – literally hundreds of them – for ten years, with large sums of money, both public and corporate, and produced a massive twelve volume history of Australia. It was meant to be an alternative type of history – with time-slices and accounts of daily lives and a volume on history prior to the arrival of the British, rather than

an orthodox narrative chronology of big public events. It is, for all that, quite a conventional history, with many pages of straightforward historical facts, guides to sources, compilations of statistics, and so on. It is a very useful history, but it would be a brave historian who would now speak well of the Bicentennial.

One of the consequences of the discomfort over 1988 has been an attitude of avoidance towards the approaching Centenary of Federation. Although 1788 and 1901 are very different historical moments, and need to be approached in very different ways, repercussions from the Bicentennial are having an impact upon the Centenary. In contrast to the big budget Bicentennial history with its cast of thousands and massive sponsorship, it has been virtually impossible to get any external funding at all for the single volume of Federation history, which a handful of historians, including myself, have been working on under publisher's contract, for the last three years.

It took a very long time for governments to set up a Centenary authority of any sort, although a committee to look into how this should be done met and reported almost five years ago. Since mid-1997, there has been an extremely effective Centenary of Federation Council in Canberra as well as state committees, and a network of sub-committees.

These committees have a number of battles to fight in a relatively short period of time: the ghost of the Bicentennial, the confusion of the Centenary with other national blockbusters – the 2000 Olympics and the now-forthcoming referendum on the republic – and, not least, the very low level of knowledge among Australians (even, in my experience, otherwise very well educated Australians) about Federation itself.

They have also to contend with a legacy of Federation histories that have been either uninspiring (sometimes simply boring) or, more recently, histories that are hostile to their subject. Here, for example, are some of the latter: Richard White writes in 1981 that Federation was "a readjustment of colonial relations, a somewhat shabby deal among the colonies based on deep suspicions and self interested manoeuvring".⁴ Stephen Alomes sees the celebration of Federation as "an occasion for Britishness and class, for established authority and religion, rather than for the ordinary Australians of bush and city".⁵ Manning Clark wrote that Federation was "recommended by apologists for bourgeois democracy for containing political equality"⁶ before going on to write a much more interesting and subtle account of its processes.

Federation was, for these historians, a failure. What can they possibly have meant by this? Whom did it fail? In *To Constitute a Nation*, I have written about Federation as a success story. This is, as I explain in the Introduction, not because I am uncritical about any aspect of the processes or any part of the Constitution, or think it could not possibly have been done any better. But my own criticisms are

quite irrelevant to the history. Federation was a success because it succeeded; it happened, where many previous attempts had failed, and it delivered an enduring Commonwealth, which gained legitimacy, and to which its members adhered.

On the specific questions of how and who lost out in 1901, I have attempted to address some of these, and will take the liberty of quoting from my own conclusion:

The claim that [Federation represented] effectively a conscious conservative strategy, even conspiracy [against the workers or the ordinary Australians], has been subjected to scrutiny by more than one writer, without corroboration.⁷ The fact [is] that almost no direct evidence exists of Conservative opinion or advice along such lines, and that many among the most conservative also opposed Federation ..It is true... that there were many federalists irritated with the demands of labour, and that labour was almost entirely unrepresented in the formal Federation process. But the argument that this was a rational conservative strategy does not hold water. Rather than repressing labour, Federation created a national polity in which the Labor Party could itself federate, and a national parliament through which Labor policy could be implemented.⁸

The complaint, we may note, of the majority of representatives of labour against the Constitution in the late 1890s was against states' rights and equal representation of the states in the Senate: but this was the view of the large colonies, and not a view shared by the working class in the small colonies, where there was a fear that the progressive legislation of individual states – South Australia most notably – might be curtailed or threatened if the large states got to dominate in the Senate. We must note, further, that this situation and these conflicts between large and small are no more resolved now, with all our wisdom and hindsight, than they were one hundred years ago.

The question that will most frequently arise as we approach the Centenary is, I anticipate: how can we treat Federation as a success story, how can we celebrate it, when the Aboriginal people were written out of Commonwealth jurisdiction in the Constitution, treated not as citizens of the new nation, but merely as parts of the states?

To this I would reply, they should not have been written out. But that is my view and it is quite irrelevant to understanding the story. The assumption that Commonwealth jurisdiction over the Aboriginal people in 1901 would necessarily have resulted in progressive policies for the Aborigines draws a very long bow. It overlooks the fact that the Commonwealth had jurisdiction over the majority of the Aboriginal population from 1911 on, when control of the Northern Territory passed to it from South Australia, and yet the Commonwealth did not use this power in any way we would identify as progressive until the 1970s. It overlooks the potential within the Constitution and the Australian polity ultimately to provide a means to challenge both exclusion and assimilation.

These sorts of debates will go on, and should go on. But they should not prevent our attempting to understand the minds of those involved in Federation, without interposing our own standards and views. Most historians, until recently have, however, preferred to say nothing about Federation at all. Federation histories completely dried up between the early 1970s, when they flourished in the Melbourne University Press *Studies in Federation History* series, and the 1990s.

One of the reasons for this long silence lies in the relative neglect of formal political history of any sort by Australian historians over those two decades. Up to, and including the 1970s, Federation had principally been written about as a series of political processes, with politics narrowly defined. When social history became popular, the type of history represented by Federation appeared to have little relevance.

In addition, many labour historians, as we have seen, saw Federation specifically as hostile to the interests and claims of the emerging labour movement in the last years of last century.

The scholarly consensus for a time seems to have been that Federation was predominantly the work of middle class politicians and interest groups, a material settlement designed to meet the needs of international capital. Federation was, it seems, a subject with little further to reveal.

Feminist histories of the same period also reflected the view that the study of formal political movements had, except in a negative sense, little to say about women's experience. The formal party and parliamentary processes of last century mostly excluded women; it was where women attempted to contest these arenas, or outside the arenas altogether, therefore, that historical research appeared to be of value for feminist historians. The lack of interest in history displayed by many (if not most) political scientists, as well as the male dominance of Political Science departments, also contributed to the separation between politics and history. And the long-running view that only constitutional lawyers could talk about the Constitution – a view that seems thoroughly to have been put to rest now – made talking and writing about some aspects of Federation (with which the Constitution was, after all intimately connected) more difficult than it might have been.

The idea that there was a more detailed story to tell of Federation as a cultural and social as well as political process, and indeed of a process in which women *were* involved, did not catch on for some time. The *human* side of the Federation story – what was going on in the minds and imaginations of not only the principal political actors, but also the Australian public in general – is what I have found most fascinating, and what I, and others working on the new generation of Federation history, have attempted to capture in our writings.

This type of research should be an integral part of the Centenary celebrations. History should serve to enrich the occasion and make it

meaningful. Local historical societies should be encouraged to engage in research on their own region's part in Federation: there were, after all, Federation League branches in almost every country town in the 1890s, and local personalities who led them, so the local facts are there to discover. Cultural aspects of Federation – the hundreds of songs and poems that were written about the occasion, the intercolonial sporting events, the souvenirs and the celebratory arches that were built all over the place in 1901 – those things that are more entertaining than the Convention debates and referendum statistics, ought to be researched and promoted.

If we are to do anything other than divide Australians into those who uncritically enjoy the celebrations of Federation's Centenary, and those who feel unmitigated embarrassment, as they did in 1988, we have to stop seeing history in an adversarial light. If we wish to be understood by historians one hundred years from now – in whose eyes we too will no doubt have made all sorts of mistakes, and these will not be the mistakes we might now imagine – if we want our hopes and aspirations and the things that constrain them to be recognised, then we should attempt to hand on a non-adversarial approach to history.

We cannot understand Australia in the 1990s, without understanding how "Australia" came about – whatever we think of it – any more than we can understand ourselves (to use that well-worn analogy, so dear to the Federationists) as adults, without understanding our childhood. Historians, I like to think, should be at the heart of this enterprise, indispensable to the celebration of Federation.

Endnotes

1. For example, Patricia Grimshaw, et al, *Creating A Nation*, McPhee Gribble, Melbourne, 1994
2. E.H. Carr, *What is History?* Penguin, 1967, p.26
3. Quoted in Tony Bennett, et al (eds), *Celebrating the Nation: A Critical Study of Australia's Bicentenary*, Allen & Unwin, Sydney, 1992, p. xviii
4. Richard White, *Inventing Australia*, Allen & Unwin, Sydney, 1981, p.111.
5. Stephen Alomes, *A Nation at Last?: The Changing Character of Australian Nationalism 1880 – 1988* Angus & Robertson, 1988, p.35.
6. Manning Clark, *A History of Australia*, vol V, MUP, Melbourne, 1981, p139.
7. R.S. Parker, "Australian Federation: The Influence of Economic Interests and Political Pressures," *Historical Studies*, vol 4, November, 1949; R. Norris, *The Emergent Commonwealth* (MUP, 1975), chapter 6.
8. Helen Irving, *To Constitute A Nation: A Cultural History of Australia's Constitution*, Cambridge University Press, 1997, p.213.

CELEBRATING

FEDERATION

Rodney Cavalier

Whereas not long ago, anyone organising an anniversary celebration had not much grand to go on, the organisers at every level of the Centenary of Federation have so many precedents that it is a challenge to offer anything novel. We have lessons in abundance, warnings of what to avoid, specialists in commemoration only too willing to favour us with advice.

The Cook Bicentennial in 1970 was the first taste for people of my generation of the mass celebration, the first truly large national coordinated effort – national if you regard Australia as encompassing the horizons known to Arthur Phillip. 1938 was already a long time ago, the Olympics was not an anniversary, Anzac Day in 1965 seemed to be the same day writ large.

The 1980s was a time when the Australian people and our institutions became date conscious, prone to celebrate years that coincided with a centenary or any fraction divisible by two or four, even five or ten. Public education was 100 years old in NSW, about the same age in the other states, a reason which occasioned some splendid celebrations and reunions in literally all parts of our nation.

The Bicentennial looms large in our memories; it is the standard by which most people are coming at the Centenary of Federation. But not the National Council for the Centenary of Federation. Nor the State Committees. We will not be enjoying the sort of money available in 1988. We do not encounter the automatic date and phenomenon awareness which came with the Bicentennial of the arrival of the First Fleet. There is not an Australian schoolchild who did not grow up with 26 January 1788.

By contrast, 1 January 1901 requires a mini-essay by way of explanation.

Beyond Sydney and NSW it has been astonishing for a Sydney resident of 1988 to discover how poorly regarded the Bicentennial was for reasons of its sin of being Sydney-centric. However untrue that is, that is the perception. If there is any memory, it is that glorious day on the Sydney Harbour and its foreshores when the Tall Ships met the

First Fleet re-enactment and the Prince of Wales presided over a long day of official celebrations. I can recall almost nothing else of the Bicentennial: 1988 has other memories for me.

It is for reason of a geocentric perception that a guiding principle of the Centenary of Federation is a simple aphorism: the Centenary happens not on one day but on 365 days, it occurs not in one place but all over Australia. Making that aphorism come to pass is the mission of the organisers of the commemoration.

Australians have done some recent commemorations exceptionally well – Gallipoli 75 years on in April 1990, the return of the Unknown Soldier on Remembrance Day 1993 and the year-long *Australia Remembers* in 1995 – which is the most apposite to the Federation centenary. It is interesting that all were military anniversaries, their themes were largely self-determined, so were the participants and the locations. They were occasions organised brilliantly, rich in symbolism, raw emotions and deliberately inclusive. Each anniversary was an occasion that was a part of the heritage of modern Australia.

The Centenary of Federation has no obvious theme, certainly none that is uncontroversial. I reject the notion that it is "the birth of a nation" though it is the crucial first step in the transformation of the Australian colonies of the British Empire to a polity that will acquire sovereignty and take its place among the world of nations.

It was recently fashionable to dismiss as high-blown rhetoric that the Gallipoli landings gave birth to a nation; I have to come to regard that thesis as wholly convincing, the beginning of a process which leads to the adoption of the *Statute of Westminster* in the midst of war and imminent invasion and culminating in the passage of the *Australia Act* in 1984, the moment when Australia is indisputably a sovereign nation.

We have to rescue the Federation period from a long passage of appalling neglect during which the coming to pass of the Australian Federation in 1901 is dismissed as something that was inevitable or (ii) a miracle or (iii) something that was going to happen anyway at some time in some form. The reality of the achievement was no more prosaic than very political men – for they were all men – employing very political means to achieve a political end. That is, they worked toward something that was possible in terms of the politics of the day.

I am not convinced that the imminence of the new century was any sort of factor, certainly not compared to the desire of the Colonial Office to tidy up Australian affairs combined with local perceptions of foreign military threat and the urgent need to close down the borders on a uniform basis to migration from Asia or the Pacific. It is not uncoincidental that Australians were fighting a distant war when the Commonwealth came into existence.

The National Council reflects the Federation itself. The

Commonwealth has the whip-hand through funding but recognises it is nothing without the willing participation of the representatives of the States and Territories. After a long delay in beginning and some hazards along the way, the Council has developed a momentum and broad plan of action which should serve to hold the disparate projects and events together. Already events organisers, people with projects, people with ideas, are coming to see us.

There need be no tension between the cerebral and the celebratory. Market research has revealed cynicisms about another excuse for a party. So, while there will be parties and fireworks and festivals aplenty, we do not assume that they will be celebration-free. The Melbourne businessman, Richard Pratt put a question to Tony Eggleton and myself – "Looking back five years after 2001, what do you hope to have achieved?" We hoped, we answered, that Australians would be aware that they live under a Constitution.

Occurring at the same time as the turn of the century and the beginning of a new millennium – distractions large enough to engage the rest of the world – Australia has the parallel preoccupations of genuine reconciliation with its indigenous people and a vibrant debate about becoming a republic.

The straightforward approach of our Centenary Council to these other matters is not to address them and not to ignore them. New Year's Eve in 1999 will be celebrated in a big way in Victoria and the City of Sydney and the patios of the nation; it will give birth to an outpouring of feature writing not seen since the death of Diana – which history may judge as the true *fin de siècle* rather than the turning of a calendar page. It will not concern the Centenary Council.

Other bodies and other processes exist to effect reconciliation and to achieve the constitutional reform which will result in a republic. Neither will directly concern the Council though both have unavoidable implications for the success of the Centenary year however resolved, if resolved or in the process of being resolved.

We do not propose to ignore or overlook developments in those or other areas of Australian politics. That would be ludicrous. We are an intensely political Council celebrating an intensely political event. Our approach to the commemoration is bipartisan and non-partisan; it is certainly not apolitical.

The Council for Aboriginal Reconciliation expires at midnight on 31 December 2000; the preamble to its enabling Act speaks of the decade prior to the centenary of Federation. It will not be the job of our Council to usurp that other Council's work or to take it on; nor would it be responsible of us to ignore the centrality of Aboriginal Australia to a successful commemoration.

Unlike 1788, Federation and its processes and its key dates do not represent a threat to indigenous Australians. The creation of the

Commonwealth of Australia has been an overwhelmingly beneficial development for our indigenes. The Commonwealth gave birth to the High Court and a body of common law and statute law which overrides, since 1967, any legislation or administrative action discriminatory to Aborigines. The land rights legislation of the Whitlam Government, carried into law by the Fraser Government, represents the largest voluntary transfer of land in the history of the world.

The question of a republic is one aspect of a debate about Australia's Constitution which is also 100 years old in 2001. The Centenary year, if it is successful, will occasion serious debates, seminars, conferences and publications about our representative institutions, our governance, what it is that holds us together in spite of our differences.

It will not be a saccharine commemoration. There are serious fault lines in our Federation, we hope the Centenary year will cause some addressing of them. Spend any time in Western Australia and you will encounter an attitude towards the eastern seaboard that cannot be simply dismissed as an affectionate resentment of distance from power. The decision of the High Court last year on the definition of excise, reduces the revenues of the states to the caprice of the federal Treasurer of the day. Vertical fiscal imbalance is the key issue endangering national unity: as the punters come to understand why states are so reliant on land taxes and gambling, questions on the basis of the Federation will not be far behind.

In the new century, Federation stands to be a central international issue in the governance of nations. Most federations this century faltered within a few years of establishment. The flag of the West Indies flies in only two places – the University of the West Indies, and wherever the West Indies cricket team is playing.

By 2001 Canada and Russia could well be breaking up as, conversely, the European Community moves inexorably to compel its once sovereign nations to the council and parliament of Europe. The proposals of the Blair Government for self-government in Wales and Scotland, if they come to pass, will make Great Britain more akin to a federation than a united kingdom.

The success of the Commonwealth of Australia in sustaining its federation without civil war or putting down insurrection should engage world attention. A brace of official and unofficial Canadian observers travelled to Canberra for the Constitutional Convention. Coming off the Olympics – when there will be an official media corps of 15,000 and as close to as many again who are not accredited – international interest will be intense in what it was that made modern Australia.

The Centenary of Federation, without the slightest smack of triumphalism, will be a perfect platform for Australia's form of representative parliamentary democracy to project itself to the world.

Not since the 1890s, when Australia led the world in social experiment, are we likely to attract the attention of the foremost thinkers and writers in the world.

Cerebral activity will not be the preserve of history or law or political science. We are hoping that all disciplines will contemplate their status in 2001 and their journey to this point. Ornithologists, for example, are planning an international conference in Australia that year. Now you may have the same reaction as I did to the interest of bird watchers, that is, until they explained they were pioneer cartographers of the Australian continent and the presence of birds in any habitat remains the best indicator of the health of the natural environment. Expect birds to be big in 2001.

Sport will take its appropriate place in the commemorative calendar. If European Australia has sacred soil, it is the turf and stands of the Sydney Cricket Ground, the Melbourne Cricket Ground and the Adelaide Oval. When citizens of the respective colonies entered those grounds from the 1870s on to watch Test cricket against the Mother Country, they thought of themselves as Australians. There were no other events that so defined them. On no other continent, then or since, have people thought of themselves by continental description as the first point of reference or loyalty. In order to select and organise a competitive team from the Australian colonies, cricket had to create the rudiments of a federal organisation, something very different to the imperial and national companies and associations which spanned the continent and the Empire.

The centenary will delve well beyond the traditional milestones of conventions and referendums which resulted in the adoption of the Australian Constitution. Some of us believe the very first Test of 1877 was as important as any oration in Tenterfield or anywhere else in developing a sense of national unity and the need for national organisation of the continent's resources. Reflect on what it says about Australia that it entered two Olympic Games before the Federation came into existence. Were not the conventions tapping into a nationalist sentiment that had emerged across the sunburnt land?

Tapping into sentiments will be as much as the National Council for the Centenary of Federation can do as it prepares for what is ahead. We do not seek to be command headquarters.

The possibility of a republic is not an event that we can ignore nor does it make sense for the Council to be predicating all preparations on a Plan A republic vis à vis Plan B status quo. It is the same with court cases and legislation involving native title. A republic will mean that the centenary year will be one of even greater introspection and futuristic flights than any ordinary anniversary. If the republic was to be inaugurated on 1 January 2001 – which makes a lot of sense as that is the centenary of the day the states federated into an indissoluble Commonwealth – then our plans for a grand re-enactment of the

parade through the streets of Sydney from the Domain to Centennial Park would be transformed fundamentally.

The Council can only plan for what is known and be sufficiently flexible about major changes. In the event the referendum on the republic goes down, our challenge collectively will be to avoid the bitterness for many of that failure permeating the commemoration of what remains a remarkable democratic achievement.

All that is certain is that we face a referendum and at least one federal election between now and the Centenary, all States and Territories will go to the polls in the meantime. In a very real sense the nature of the commemorations is in the hands of the people.

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Photo - David Karonidis

Fred Hilmer

Known best for his work on management as Dean of the Australian School of Management until 1997 and as author of *Management Redeemed*, Fred Hilmer has also practised law and chaired the National Competition Policy Review Committee. Fred Hilmer spoke for The Sydney Institute on Wednesday 4 March 1998.

REFLECTIONS ON

ECONOMIC REFORM

Fred Hilmer

Cartoonists often capture the essence of an idea far better than people are able to do in words. My reflections on economic reform crystallised when I saw a cartoon recently in the *Herald*. The caricature is of NSW premier, Bob Carr. He is standing in a dark room giving a lecture on the advantages of privatised power, saying, "Now where were we before we were so rudely interrupted?" (by a blackout). Below him are two large candles. One candle reads "Auckland" and the other candle "Queensland". The usual first reaction, including my own is: "Great cartoon. Very funny. This is a pointed commentary on electricity reform."

The twist is, if this cartoon were an advertisement it would be in trouble for being deceptive and misleading. If you look at the two candles representing the two places where blackouts recently occurred, Auckland and Queensland, Queensland isn't privatised. In fact the Queensland Government has, to this stage, made it clear that it is not interested in privatising. Queensland is a publicly-owned system and it has been the slowest to embrace the competition reforms of all of the systems in Australia. Auckland, the second example, has privatised but the form of privatisation is a community or consumer-owned trust, hardly a "Chainsaw Dunlap"-driven organisation out to squeeze every piece of profit from electricity consumers. Auckland is served by a consumer-owned electricity organisation. And yet those two examples are given by the cartoonist as the reason why NSW shouldn't privatise its electricity industry.

This cartoon crystallises one of the greatest difficulties in economic reform. Reform is not a rational process. In fact it is the one area in my life where the word "rational" is a bad tag. If you're a rational economist, or an economic rationalist, by definition you have horns, beat your children, drink to excess and don't care about anything other than the narrow pursuit of optimising profit. In other fields the word rationalist means quite good things. I would hate to visit an irrational doctor. I would hate to drive over a bridge built by an

irrational engineer. But in the area of economic reform, rationalist has become a dirty word.

So as I reflect on reform there are three points I would like to cover. The first is an update in terms of where I see progress in micro-economic reform. The basic point is that, despite considerable benefits being delivered to consumers and society in general, the progress of reform is finely balanced. Second, the main reasons progress is finely balanced, rather than charging ahead, are political. I'd like to talk about some of those. My third observation is that, rather than decry politics and say politicians are the lowest form of life, ranking somewhere behind used car salesmen and real estate salesmen, we need to take politics more seriously if we're interested in reform. We need to get better at the game. Today I'll briefly discuss each of those ideas.

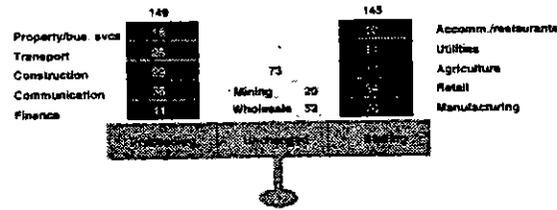
Progress in reform

Let me explain what I meant when I said that reform is finely balanced. People often ask, "How are things going?" And you say, "They're fine" or they ask, "What do you think about progress?" And you say, "Well, it's moving ahead." I was getting sick of those vague answers so towards the end of last year I decided to produce a tangible score card on the progress of economic reform I took a look at the national income and expenditure accounts. There are about \$360 billion of Gross Domestic Product (GDP) excluding the traditional public service. That \$360 billion breaks down into a number of sectors. I made a judgement about whether I would class a "sector" as one where reform was proceeding, one where things were largely unchanged or one where reform had stalled. Then I added up the GDP involved in each of those sectors. And I got \$149 billion against \$145 billion (see exhibit 1). So I feel comfortable about saying progress is finely balanced. There are about as many sectors accounting for as many dollars moving ahead as where progress is falling back.

How did I reach those judgments and what are those sectors? The areas where progress is moving forward are finance, communication, construction, transport, property and business services. While reform isn't perfect in any area, if you look at each of those it's hard to say other than that reform has proceeded at a reasonably vigorous pace. In finance the emergence of the non-bank lenders – Aussie Home Loans, Macquarie Bank, Rams, Wizard – has really shaken up home lending. And the Wallis reforms which are being implemented, will introduce more competition into the financial sector. So I put finance in the category where reform is proceeding. Communication is similar. We still have a very large Telstra but it's now clearly driven by private sector motives and we have competitors – Optus, Vodaphone, One Tel, AAPT. There is choice emerging. And in postal services the National Competition Council is at last, with the support of the federal

Exhibit 1

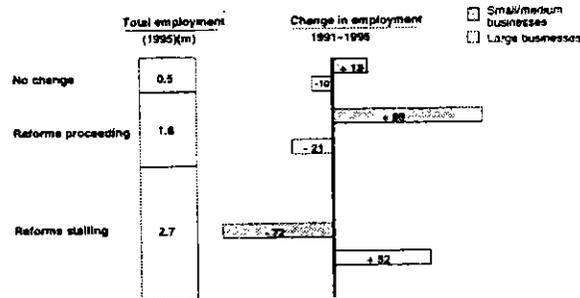
REFORM IN THE BALANCE
\$bn



Source: Australian National Accounts, National Income, Expenditure and Product, ABS Catalogue No. 5234.0, 1997, p.29

Exhibit 2

Competition reforms are associated with job creation,
especially in small/medium businesses



Source: Business Operations and Industry Performance, ABS Catalogue No. 8140.0, 1998

government, beginning to examine the Australia Post monopoly. Then take construction. There have been some notable price fixing cases, eg in cement and there are reviews of regulations that add cost. Take transport. It's possible now to run private trains. That was unheard of five years ago – unthinkable ten years ago. Take air transport – far more contestable; or road regulation – more uniform. Finally in services, the application of competition principles to the professions has opened up a number of areas to competition. You see cut-rate conveyancing, for example, as an instance of how competition is beginning to be felt.

Those are the areas of the economy where reforms are proceeding. But what about the other side? Right at the top of the chart is probably the most significant area – manufacturing. Manufacturing seems to have a hallowed place in the political system and is able to resist reform. We have tariff decisions with respect to automobiles, textiles, clothing and footwear. We have continual calls for an industry policy. That means more protection in some form. We have calls now for an information technology plan, as if the government can somehow bless manufacturing and create what we haven't been able to create through the efforts of our own people. In retail, accommodation and restaurants, we have all sorts of queer restrictions that governments don't want to challenge. For example before the election the prime minister promised that he would not take on the newsagents' monopoly. Pharmacies are highly regulated as are liquor licensing trading hours. Take one example. In Adelaide you can shop in the centre of the city on a Sunday but you can't shop in a suburban mall. Why? What is the rationale? It reflects the power of one group, the downtown shop owners-merchants versus the power of other groups and consumers. In a similar vein, the recent fair trading enquiry of the commonwealth parliament is seeking to give retail tenants all kinds of rights. All this will do is destroy the contestability for retail space. The best retailers won't be able to get the best space on the basis of their performance because we're going to protect poorer performers. You might ask who pays for the protection.

In agriculture there's a continuation of all kinds of marketing arrangements – wheat, sugar, rice, dairy. You could argue that I should put utilities on the plus side. There's been considerable reform, for example, in electricity. But the reform is still in its early stages, and there have been many delays. Queensland was very slow to agree to interconnect its electricity system to the east coast grid even though it's now obvious that they needed to interconnect. No one is arguing anymore that Queensland shouldn't have interconnected. We've had slow progress in terms of gas access and water has been put in the "too hard basket". This set of sectors where reform is stalled in total account for about a \$145 billion of GDP.

Benefits of reform

Have we however benefited from the reforms that are progressing? My answer is, yes. Take a look at jobs (exhibit 2). Reform stalling areas in total account for about 2.7 million jobs. Where reforms are proceeding, these areas account for about 1.6 million jobs. The "no change" areas account for half a million. Now what's happened to those jobs over periods of time? In the areas where reforms are stalling we've seen a dramatic reduction in employment from small business. There's some increase in employment in large businesses, but overall where we haven't reformed we've lost jobs. In contrast, where we have reformed, there is an overall increase in jobs, made up of a minor reduction in jobs in large businesses but a significant increase in jobs in small business.

In short where reform has progressed jobs have been created. People have gone after the opportunities. The Telecom employee of old becomes the person selling you a PABX or servicing phones privately or doing some of the other work like retailing, that used to go on in a monopoly and is now going on in small businesses. With transport operators, people buy trucks, set up routes and do deliveries. In finance you also see lots of small businesses emerging, such as financial advisory firms. Now that you have choice you need help in making the choice and as a result there are job creation opportunities.

So Australia seems to have two economies. First is the "Eastern Europe" part of Australia where we've decided we won't have reforms. There we ration and restrict. You may not shop on Sundays in the suburbs. You must go to a pharmacist for this, you can't buy that in the supermarket. You must get your paper delivered by a newsagent. You say why? And the answer is "you just must". In that area things aren't going so well and we aren't creating jobs. Then we have the areas where we're freeing up the economy and we're seeing progress. Put another way we have a schizophrenic economy.

There are other benefits that reform brings in addition to the benefit that comes with freeing up an economy in terms of job creation. One of the other key benefits, for example, is low inflation. It's widely understood that we couldn't have or enjoy the low inflation we've had if we didn't have more competitive pressure in the markets in which we all shop. So we get low inflation. And there's another thing that has become far more apparent since watching the Asian crisis. Because we've been able to progress micro economic reforms we have insulated ourselves far better against the type of dislocations that are occurring in Asia. If you look at any economy you see a number of interrelated economic policies. First, there's fiscal policy – eg. the level of surplus or deficit, and the savings rate. Second is monetary policy affecting interest rates. Third is exchange rate policy and finally there is micro economic policy. Look at Australia versus Indonesia. Fiscal policy in

Indonesia wasn't too bad. In many respects they were fiscally more responsible you might say than we were. They ran moderate deficits but they saved more. And monetary policy wasn't too bad up to the crash. Their exchange rate policy was somewhat suspect but their microeconomic policy was non-existent.

Micro economic policy ensures that the scarce resources we have in a society get used in the areas where they do the most good. If we build a factory, for example, we build it because we think we need the output. If we build a building we build it because there's a demand either for industrial use or commercial use. If you have an economy as Indonesia's was, which didn't allow the market to tell people what was really needed but on the other hand doled out these opportunities on the basis of political favour, then you effectively have no way to ensure that money goes to the best opportunities. You get no market signals and you have a highly unstable economy which can crash. When our politicians say to us that Australia is doing better than Asia because our fiscal policy is sound – this is not entirely true statement. Our fiscal policy is similar to many Asian nations. What is most different is our exchange rate policy and in particular our micro economic reforms.

Politics of reform

In summary, let me come back to my outline. Reform is in the balance despite the benefits being achieved. That then raises the next question. Why? There are a couple of reasons. Take the competition policy. While it is being implemented, at the same time we are having heated debates about labour market reform, education, the republic, Wik, guns, financial sector reform, industry policy, tax reform, jobs and so on. In the whole political arena there's a tremendous amount of noise and it's difficult for reformers who don't understand this and don't see the linkages between issues and the interest groups who want something here in order to get something up there. If reformers don't understand the process they see their reforms sidelined.

There is another side to this reform difficulty that is also political. An important part of politics is not only to understand coalitions and interactions between issues. Another side of politics is the ability to speak in a way that is populist and meaningful to the people who ultimately vote governments in or out. If you don't do that then you end up with a communication package which falls foul of at least four typical faults that I would say I and other reformers have been at times guilty of. Sometimes our communication is unclear, sometimes it's just wrong, sometimes it's incomplete and quite often the debate is captured by special pleaders. Let me give you a few examples of each of these.

Firstly there is *unclear communication* (exhibit 3). This might be a quote from a government report that I wrote: "Micro reform is essential

Exhibit 3

Unclear communications

What is said

Micro reform is essential for achieving global standards of technical allocative and dynamic efficiency

Deregulation, structural adjustment and privatisation provide a self-reinforcing set of positive changes

New, more transparent mechanisms are required in traditional areas of cross subsidy

The dynamic of competition will create new opportunities that cannot be identified in advance

We need to provide flexibility so that resources can flow to areas of natural advantage

What is heard

You'll lose your job

Industry will rip you off - remember green slips

Government benefits will be cut

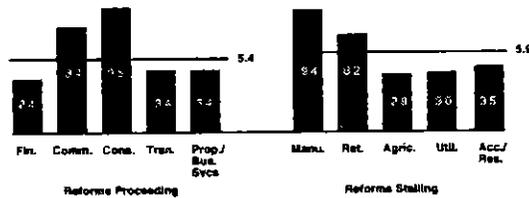
There aren't going to be new jobs

No-one cares about the Chesty Bond workers

Exhibit 4

Opponents of reform are protecting profits

AVERAGE RETURN ON ASSETS (1990-96)
Percent



Source: Business Operations and Industry Performance, ABS Catalogue No. 6140.0, 1998

for achieving global standards of technical, allocative and dynamic efficiency." What people out there hear is "you're going to lose your jobs". Take another example. "Deregulation, structural adjustment and privatisation provide a self re-enforcing set of positive changes". Things are going to be really good. But what people hear is that "industry is going to rip you off". Remember the green slips? And you can go through most of the economic jargon around reform and find that while you say one thing it's not being heard.

Second, communication is often misleading (exhibit 4). A reformer says, for example, "New, more transparent mechanisms are required in traditional areas of cross subsidy like school buses." That is understood to mean "government benefits will be cut". And they often are. Take the sentence, "The dynamic of competition will create new opportunities that can't be identified in advance." Now that might be correct. When a job goes, we know the job goes. But when a job is going to be created it's very hard to tell ahead of time where it will be created. People couldn't anticipate what would happen in the phone market. The employment effects of changes like the explosive growth of mobiles, the use of new phones in the home, the use of new phones by business, the different uses for example in linkages between phone and computer couldn't be anticipated. So when we say the dynamic of competition will create opportunities, it's not surprising that all people hear is "there aren't going to be any new jobs".

Our communications are often not simply misleading. Sometimes they are just *wrong*. One example I see all the time is the saying "we need to become competitive". Why? Well competition is not an end in itself. It's the means to an undefined end. Why do we need to become competitive? Well presumably we need to become competitive to let something good happen. When someone says we need a reform because we need to become competitive, I might understand that as a theorist, but to expect it will carry any weight in the political arena is a forlorn wish.

Similarly the phrase, "the government should leave industry alone to allow more vigorous competition". But people ask questions about issues like safety, for example, if governments left industry alone wouldn't planes fall out of the sky? "Leaving industry alone" is the wrong message. The messages of politics should be messages about benefits, ends – lower taxes, more jobs. But the messages of economic reform are often messages about means. And in that sense the message is wrong. It would be more correct and convincing to talk about, for example, lower prices, more choices, more jobs, the end of unreasonable restrictions. That's a different kind of language that might have some chance of survival in a political arena.

On top of this we often *communicate incompletely*, only tell half the story. This is partly because we're working in a field where change is

evolving so you can't tell the whole story. But we tell half the story and the half that we don't tell is actually terrifying. Let me give you a couple of examples.

When I completed the Competition Policy Report, we had a number of discussions about implementation. There was a general agreement among governments that five years is a reasonable period for implementation. While that sounds reasonable, there are a lot of unanswered questions. What's going to happen tomorrow? What's going to happen next month? Does this mean nothing happens and in five years time the earth is scorched? How am I going to be affected? Is there going to be any help for me during the transition? These points of communication are incomplete. We say the benefits of reform are significant and widespread but we never fully explain why and how. What's wrong with just helping the sugar farmers in North Queensland someone will ask? Why can't we make a few exceptions? So much is left unsaid.

Finally much of the communication in the political environment gets sandbagged by people who are really pushing self interest. There is tremendous lobbying from the people in sectors where reform isn't proceeding. So what would you expect to see? You'd expect to see that the people in those industries actually are doing it tough, that they're earning lower profits. After all that would be why they need the government's support. But this is in fact wrong. They are actually earning more profits or at least comparable profits. As exhibit 5 shows, the average return on assets in the areas where reforms are stalled is 5.9 per cent as opposed to 5.4 per cent in the areas where reforms are proceeding. That's another lesson of politics. When somebody makes a case it's self interest rather than the merits of the case that is most often behind the argument.

In summary then, where progress in reforms is finely balanced it seems to me we could be less balanced and more positive if the politics had been dealt with better. My final question is, "what do you do about that?" Rather than decry politics, rather than say politics is a dirty word, I think the next generation of reformers need to embrace politics. There is a wonderful little book that was written in 1964 by a fellow called Bernard Crick called *In Defence of Politics*. Crick points out why politics arise – because we've got different interests trying to co-exist under a common rule. If you didn't have politics, if you didn't have this bartering, advocacy, accommodation and giving and taking what would you have? You would either have coercion, a system of totalitarianism, or some tribal system where the misfits were excluded. What Crick comes back to, in *In Defence of Politics*, is that politics is a plausible response to the problems of trying to allow people who have different views and interests to cohabit peacefully.

So where does that leave us? In terms of the next generation of

reform we must harness political skills rather than decry them. The need for skills is acute. Politicians won't readily do the work of reformists. The most ardent reformers are often not the most skilled politicians. John Button and Nick Greiner believed in reform and will probably be remembered more for reform than their political skills. Therefore we've got to co-opt, hire, cajole, develop or otherwise gain political skills.

You might ask me how a politician reformer would have dealt with the cartoon about Bob Carr and privatising power in New South Wales that I started the talk with? As a reflective reformer I can't answer that question. It would take a politician to know what to do!



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Photo - David Keronidis

Janet West

Janet West is an Anglican historian and author of *Daughters of Freedom* (Albatross 1997). She is also the author of the widely acclaimed life of Bishop W G Hilliard - *Innings of Grace*. Janet West spoke for The Sydney Institute on Wednesday 11 March 1998.

WOMEN, HISTORY

AND THE CHURCH

Janet West

Discussion of the role of women in the Australian church and indeed society as a whole is a relatively recent phenomenon. It is only since 1970, in the wake of second wave feminism, that serious study of the contribution of women to the nation has been undertaken. *Daughters of Freedom* is the first attempt at a general history of women in the Australian church and as such has been attracting some attention.

My decision to paint on such a broad canvas was firstly due to the very absence of information about women and churchwomen in particular over the first Century and a half of European settlement. Furthermore, official church archives are virtually bare of information about women despite the predominance of women in church congregations. Apart from the records of individual orders, so lovingly preserved by the sisters, the chief repository of information about churchwomen are the great public libraries of the land – the Mitchell, the Batty and the Mortlock.

Thus the very absence of information about churchwomen in Australia, at least for the first Century and a half of European settlement, compelled me to cast my net wide to encompass the experiences of women from various traditions and callings. Some would reason that my findings are spread too thin for adequate scholarship because, for instance, the experiences of a Catholic nun are too dissimilar to those of a Protestant missionary or those of a Methodist laywoman differ too greatly from those of a clergy wife. However, ecumenism is one of the hallmarks of the women's movement in the Church. There is great satisfaction to be gained from crossing denominational and class boundaries and observing similarities in spiritual calling and oppression (and sometimes encouragement) from an entrenched male hierarchy. Such women found religion to be liberating and empowering and yet they were restricted in matters of leadership by societal norms and the patriarchal nature of their own church. Although by the early 20th Century they came to dominate congregations numerically and in providing labour, they were generally

not recognised as being capable of executive power within those congregations.

The problem of paucity of sources is not of course confined to churchwomen as the whole emphasis of secular history pre-1970 has been on the affairs of men who have traditionally governed, gone to war and established leadership in business, the arts and scholarship. Thus for much of the period, women were not considered worthy of the historian's pen unless they were monarchs, saints or consorts of the famous. To be married to an important figure such as a governor or a bishop merited some attention but a wife's significance was invariably assessed in terms of her husband's role and her contribution to it. The towering achievements of Lady Eliza Darling in social and educational welfare in pre-Victorian Sydney and of Frances Perry in mid-Victorian Melbourne for example, have been relegated to the background by historians dealing with their husbands.

As far as pioneer women settlers were concerned, research material had to be gleaned at first from biographies or from chance discoveries of letters and diaries. Such biographies as Alexandra Hasluck's superb study of Georgiana Molloy and FJ Woodward's portrait of Lady Jane Franklin were all too rare.¹ Painstaking detective work – *cherchez la femme* – is occasionally rewarded, as in the discovery of the journal of Lady Isabella Parry at the Scott Polar Institute in London. The entries of this ardent evangelical leader document a spiritual journey which illuminates the experiences of the earliest European women in the Great South Land.² Other illuminating moments were the personal discovery that the body of Western Australian pioneer, Georgiana Molloy, had been re-interred by her husband under the pulpit of the Church of St Mary Busselton...the reading of the journals and letters of three Australian women missionaries working in Britain's C Grade colony of Tanganyika in the 1930s, which are full of adventure, sighs and laughter... the unravelling of the mystery as to why St Vincent's Hospital in Sydney lost its first matron. These were some of the highlights which alleviated the frustration of researching the lives of women in the church.

Interviews were conducted with elderly churchwomen in a race against time to obtain the views of women who had begun their ministry in the 1930s and 1940s; but these were a declining band. Archives of religious orders were thankfully a more fruitful source for the researcher and here I must record my appreciation of the helpfulness of the sisters who clearly cherish their records. The records of such bodies as the Women's Christian Temperance Union, the Mothers' Union and the Methodist Dorcas Society were invaluable in researching voluntary women's organisations. These were of course residing in secular libraries – as were the records of women missionaries. Perhaps this is fitting as it was women rather than men in

the Church who came to reach out to the community in practical terms as the period unfolded.

A second problem confronting me as an historian writing on women in the Church was that of interpretation. Should one adopt a Marxist, feminist or triumphalist approach to the lives and work of these women? Marxist theory has fallen from favour in academic circles over the last decade but its emphasis on the exploitation of women within social and economic systems has overflowed into feminist and social welfare theory and therefore into attitudes within sections of the church towards the role of women.³ Feminist theory on the other hand – especially as it does not rule out a Deity – has found considerable acceptance not only in the academy but also within the Church, particularly in Catholic and Quaker circles. Christian feminism in Australia is more moderate in its rationale than the more secular but highly influential writings of an Anne Summers or a Marilyn Lake.⁴ It is based on a quest for justice and enfranchisement for women and is therefore critical of patriarchy within the Church. However, such historians as Patricia Grimshaw and Hilary Carey identify other factors in assessing the role of churchwomen in Australia – not least their contribution to family as the pivot of a transplanted society.⁵

Two other prisms can be held up through which the experience of women in the Church may be viewed. The first and more academic approach has been the *les annales* method often used by scholars amongst women religious. From the mass of detail at their disposal in convent archives, such historians as Rosa MacGinley of the Presentation Order and Sophie McCrath of the Sisters of Mercy have built up exhaustive and admirable analyses of their subject using this technique.⁶ The traditional approach which is more readable but less rigorous academically is that of triumphalism and biographies and histories of this type abound in ecclesiastical libraries. Some of the Mary MacKillop and Caroline Chisholm biographies fall into this category, as do the tributes which fall from the copious pen of such churchmen as Marcus Loane.⁷ The triumphalist nature of Christian theology is the chief influence behind this writing but it is often accompanied by a lack of critical analysis and weighing of sources.

The approach which I finally adopted was a generalist one which was possibly short on forensic discussion of sources and interpretations and long on narrative covering faith in action. The result is hopefully an adequate analysis of the churchwoman's role while being readable and interesting. Hagiography was perhaps the sorest temptation to be faced in approaching the task of a general history of women in the church. As research uncovered more and more of the largely unrecognised achievements of women in the Australian church, a sense of exhilaration took over. Of what were these women not capable? Physically building churches, hospitals and schools in India, leading

services and preaching in Africa and on the beaches of Western Australia, riding by camel into Alice Springs to open a church and a dispensary, visiting gaols daily to bring hope to desperate inmates, visiting squalid mental asylums and lobbying government for their reform. The journey of Aboriginal women from a largely passive role to assisting with Bible translation, to teaching their own people and finally to leadership of congregations following ordination in the 1990s was equally inspiring.

However, for a balanced view of history, the mistakes of the churchwoman must also be chronicled. There was a record of cultural insensitivity on the part of a number of missionaries towards the people amongst whom they were working which cannot be overlooked. Some earnest laywomen were judgemental and condescending in their philanthropy and welfare work. Some religious were harsh in their dealings with children and even members of their own community. Some clergy wives were unsupportive of deaconesses working in their husband's parish. A single professional churchwoman could present a threat to the semi-professional clergy wife.

A further interpretative problem for modern historians is a tendency to impose their own mores and standards upon the behaviour of past women in the church. Even the finest of historians can be condescending about the provincialism of, for example, early missionary wives working amongst Aborigines, without sufficiently exposing the vast cultural differences between the two races and the limited cultural background of the missionary herself.⁸ The missionaries, laywomen and religious of the past were children of their own generation and for the most part accepted the social conventions of the day, narrow and prudish as they might appear to us today.

Themes and variations

Significant themes emerged as I pursued this study. Some could be dealt with in one chapter, others flowed over into two or three chapters. The first chief theme was that of the pioneering churchwoman of the Georgian era and the problems she faced on an alien shore. The devout woman of the earliest days of settlement grappled with her solitary environment and in a number of cases founded and led the church in her area. Such women as Georgiana Molloy of Western Australia proved themselves as planters and pastors of the church in the absence of clergy and traditional church infrastructure. Second, the heroic contribution of Catholic and Anglican orders to church and society and the early conflict with the male hierarchy over issues of power and procedure are of absorbing interest to historians of the women's movement. It is not difficult to conclude that the 19th Century hierarchy's denial of freedom and autonomy for women's orders was an early factor in the rise of feminism in Catholic circles.

A third theme is that of philanthropy; devout laywomen of the Victorian era performed significant feats of social work as an expression of their faith, before governments became responsible for the welfare sphere. At the same time, these women were cutting their teeth on such executive functions as committee work, speeches and financial administration – areas which were heretofore the province of men. Linked with this is a fourth theme, the advent in the 1880s of first wave feminism which was an important development in its interface with the Church. Many women like Eliza Pottie and Mary Colton were associated with militant temperance and suffrage societies, while sustaining their church and social work. An adequate supply of domestic help which was available to the middle class in the late 19th Century was a *sine qua non* for such wide ranging endeavour. Feminism with its goal of the emancipation of women from darkness and repression was one of the motivating factors in the expansion of female missionaries overseas in the 1890s.

A fifth and also allied issue is the question of female education which was undoubtedly the most liberating factor for women by the beginning of the 20th Century. Non-conformist churches in particular welcomed the establishment of church secondary schools for girls and the opening of universities to women without realising the ultimate implications of such reforms for a male-dominated church. The Catholic Church in particular did not realise what an instrument of independence and even dissent they were unleashing when they allowed women's orders to take control of the education of girls. As can be seen in events leading to the foundation of Sancta Sophia College at Sydney University, the hierarchy preferred the risk of leaving tertiary education of girls in the hands of the Sacred Heart religious rather than exposing good Catholic girls to the evils of university secularism.

A sixth theme which arises in the 19th Century and reaches its apogee by World War II is that of missions. Denied opportunities of leadership and autonomy in their home churches, many women expressed their vocation by serving as missionaries overseas and in the outback of Australia. They set up schools and hospitals, planted churches, preached and conducted services – options which were denied them in their home churches. By the 1890s women missionaries had begun to outnumber men by a ratio of 3:1. It was therefore not surprising that leaders of future movements to ordain women like Jean and David Penman and Patricia Brennan had served initially as overseas missionaries.

A seventh theme is that of the clergy wife who has played a vital role as a semi-professional in church consolidation since the First Fleet, when Mary Johnson, wife of the first chaplain, was the first white woman to land in Australia. Clergy wives have acted as a bridge between cleric and lay and their husbands have undoubtedly relied on

them for the efficacy of their ministry. Bishops' wives were particularly influential in the Anglican Church, being well-educated and articulate and generally willing to travel and work beside their husbands in a high profile manner.

A final and a major theme which brings us up to the present day is the gradual move towards equality of opportunity for women within the Church. Smaller bodies like the Quakers, the Salvation Army and the Congregational Church have become completely democratic in their attitude towards gender roles. The Presbyterian and Methodist churches have limped towards the goal of female ordination which their women finally won in 1977 after these churches were united. The oldest and most hierarchical of churches – the Catholic and the Orthodox as well as the Sydney Anglicans – have remained opposed to the ordination of women, partly for reasons of tradition and a particular selective interpretation of Scripture and partly for reasons of power. By ignoring the revolutionary changes occurring in the role of women in post-war society, they have risked losing the membership of spiritual women of independence.

At one level, the book is a cavalcade of women who have helped to shape Australian society – nuns, clergy wives, missionaries, Aboriginal believers and laywomen – their goals, achievements and motivation. At another level, it proposes the thesis that where the Church has failed to recognise cultural change, the greatest friction and angst have resulted for its women members. Freedom which is the spiritual birthright of both genders was not always realised in the imperfect society which is the church militant here on earth. The oppressive attitude of the Catholic hierarchy towards the societies of laywomen like the Grail Movement which sprang up between the wars is a case in point, as is the refusal of the Vatican even to allow debate about the ordination of women in the Catholic Church.⁹ The decision of the small continuing Presbyterian Church to revoke the principle of ordaining women in the 1980s was a further blow to gender equality when women in other Non-conformist churches retained their freedom to lead. For women in these churches, the contrast between the liberating and encouraging attitude of the founder of the church towards women and that demonstrated by the hierarchy of the church was all too telling.

Apart from the earliest years of European settlement, women have comprised more than half the membership of the Body of Christ. Women religious and missionaries have greatly outnumbered their male counterparts but leadership in the home church has largely eluded them. Women religious outnumbered male clergy and religious by more than two to one, prompting Catholic historian Brian Cosgrove to comment recently that, "The church in this country was built on the backs of women."¹⁰ However, while it is tempting to portray the history

of women in the Australian church as a saga of conflict or the exploitation of cheap labour by the male hierarchy, it must be remembered that the majority enjoyed what they were doing; whether it was in serving at fetes, decorating the church, women experienced fellowship with other workers and a fulfilling outlet for their energies.¹¹

The journey of Australian churchwomen over more than 200 years has been characterised by much patience and hard work. Much of this work has been lowly in nature and is therefore undocumented. Until the last 20 years it was largely a hidden history, save where independent communities of women, like the orders, have lovingly preserved their records. The ordination issue has thrust the role of women into the spotlight and there it will remain till a resolution is reached. This tension must not disguise the fact that there has been much fruitful co-operation between men and women in building up the church. At the same time there has been conflict and pain – especially for some women workers – that has brought discredit to the church and attrition of its numbers. However, those who have stayed within the church and continued to fight for their view of what is right have done most to confront problems and achieve a positive outcome.

Endnotes

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Photo - David Karonidis

Tim Fischer

Tim Fischer, Deputy Prime Minister and Minister for Trade, has made a distinct mark as Australia's Trade Minister, embracing global markets with a passion and working tirelessly for optimum outcomes for Australian exporters. Tim Fischer spoke for The Sydney Institute on Thursday 19 March 1998.

THE END OF THE

TYRANNY OF DISTANCE FOR RURAL AUSTRALIA

Tim Fischer

As we draw to the end of the greatest ever century of change, there are new technology developments which are distance neutral, encouraging of decentralisation and not centralisation and, for the first time in a long time, giving real hope for a real renaissance in regional and rural Australia.

In addressing The Sydney Institute I want to lay out a vision of the future for non capital city Australia which is realistic and upbeat. It is a vision of a robust and growing rural and regional Australia interconnected to the world with jobs growth and a superb quality of life.

I do so against the false background of a perception that rural Australia is in terminal decline. Media reports regularly claim that the industries and towns outside our cities are slowly shrinking away with an ageing, poorly educated workforce, forced down by the economic forces that demand greater and greater efficiencies. The aftermath of a Bill Gates' visit is a particularly good time to look at the future of rural Australia and then place the correct facts before you.

- Regional Australia's population is declining rapidly – **wrong**. In 1911 43 per cent of Australians lived in rural areas. The proportion fell steadily until 1976 when 14 per cent of the population lived in rural areas. Since then, there has not only been an increase in the absolute number of people living in rural Australia but a relative increase.
- Inland regional cities particularly are in decline – **wrong**. The following cities have grown: Albury/Wodonga, Ballarat, Bendigo, Dubbo, Kalgoorlie, Mildura, Toowoomba, Wagga, Shepparton and Bathurst.
- No primary production industry has doubled the value of exports this decade – **wrong**. In agriculture, canola, wine, cotton, live animals and dairy products, we have seen more than doubling in the values of our exports.

Our farmers are old and uneducated – **wrong**. The average age of farmers is not in the mid fifties and rising as broadcast from one set of

surveys. More detailed analysis using census data shows that the average age is much lower and has not changed significantly for over three decades. Australian farmers are not the poorly educated "sons of the soil" as painted in some surveys. The same recent study on age profiles for farmers concluded similarly for the educational attainments of Australia's farmers and made the cogent point: "The myth of an ageing and poorly qualified farm workforce damages the image and reputation of our rural industries."

The facts speak differently from the perceptions. The social, technological and economic trends in our society are creating a renaissance in rural Australia. Historically, rural and regional Australia outside our cities has suffered from the tyranny of distance in giving a fair access to many of the opportunities available whether they be economic, cultural, educational or socially generated by modern industrial civilisation.

It is just over three decades since Geoff Blainey wrote the *Tyranny of Distance* which defined Australian development in terms of geographic scale. In that study he said:

Distance is as characteristic of Australia as mountains are of Switzerland. By seaplanes or airlines most parts of Australia are at least 12,000 miles from Western Europe, and the source of most of their people, equipment, institutions and ideas. The coastline of Australia also stretches for 12,000 miles and the coast encloses as much land as the USA, excluding Alaska. The distance of one part of the Australian coast from another, or the distance of the dry interior from the coast, was and is a problem as obstinate as Australian's isolation from Europe.

This study places the scale of Australia in perspective even if written in a different time.

The industries and lifestyles of all Australian citizens have been determined by this geography of distance. From our colonial period through the development of our great industries to the modern era, transport and physical proximity to the markets and suppliers have been dominant influences in Australia.

Australia developed after the commencement of the Industrial Revolution and our urban pattern reflected this. In 1850, Australia was one of the most urbanised nations in the world. Geoffrey Blainey provides a compelling reason for this pattern of development favouring our cities on the coast:

To a married migrant arriving at an Australian seaport from Britain with his wife and children, a sheep run offered few social amenities, rarely a school or a church service, small hope of a job for any of his daughters who were old enough to work, and a wage that did not buy much because the prices of all goods except mutton and sheepskin rugs were heavily inflated by the expense of inland transport...The population of seaports was thus relatively inflated. Moreover their high quota of women and children needed houses, schools, churches, roads, foodstuffs and manufactured goods, thus

creating more work in the seaports and thereby increasing their population.

The few big towns fattened not only on the isolation of the wool districts but on Australian's isolation from Europe. The cost of bringing many manufactured goods from Britain was so high that Australian townsmen were encouraged to make them. A visitor wandering through Sydney or Hobart in the 1840s would have seen breweries, distilleries, soap and candle factories, foundries, dray and coach builders, and a variety of poky factories and repair shops... some of these goods were only made in Australian towns, because, if they had been ordered from England, they would have taken too long to arrive, or been too expensive, or deteriorated on the long sea passage.

The tyranny of distance determined much of our historical pattern of development. The great export industries have traditionally been in the hinterlands of our seaboard cities. This division still holds. The economic base of rural Australia is still as strong as you saw from the statistics earlier. We do not recognise often enough our achievements in our great export industries which continue through to this day.

Australia has two of the most technologically advanced industrial sectors in the world. They are mining and agriculture. Though the physical appearance of the products of those industries, whether it be a bale of wool or a tonne of iron ore, has not changed much since last century, the methods of their production have benefited from the application of technology as an input. In the case of the wool industry we have improved genetics and breeds, greater production from the application of appropriate fertilisers and trace elements. There is greater use of biological controls on weeds and pests. The product is better defined through the use of equipment to measure its yields and its micron levels.

The iron ore industry uses equipment of a scale that would be unbelievable to the pyramid builders of Egypt. It is hauled on trains which are continuously monitored and which use laser technology to ensure their efficient transportation. We are adding value to these traditional commodities by constantly attacking the cost side of the equation and the adoption of new technologies has been a part of our history.

We are not stopping still and waiting for the rest of the world to catch up. New technology in computing and communications and continuing improvement in efficiency of all spheres in the economic world are creating a platform whereby geography will no longer be a constraint for many industries.

I will give you an example of how the application of new communications technology adds value to the grains industry - a supposedly traditional industry around the world. Access to mobile phones, between harvesters, the trucks hauling the grain and the silos,

ensure much greater coordination. Rarely do we have harvesters standing still waiting for trucks or trucks banked up waiting for harvesters. Mobile phone technology ensures that this capital equipment is much more efficiently used. The value added to the grains industry is no longer just in the saving of this capital in the time of this use of this capital equipment. It now allows a much quicker harvest with the potential of less storm damage and therefore a higher quality product for world markets. This adds value to Australia's exports.

There are new technologies becoming available which continue to add value to our products on world markets. However, the value adding process can be located anywhere in Australia.

There is a bulk materials management system which automates data collection for all facets of mining including stacker-reclaimers, conveyors and tipplers. Through the use of computing and GPS technologies, a parcel of raw material can be traced through stages of its life. Not only can the location be determined but also the quality of the material. Potential downgrades of quality, such as in a coal stack caused by rain, can be detected quickly and remedial measures adopted to enhance product qualities and prices. The location of the people monitoring this aspect of the material handling business could be in Tamworth rather than Newcastle or any other location in Australia. We have seen the road freight industry decentralise into a predominantly small business sector because mobile communications have aided the coordination of freight loads amongst many small operations. Big in this business is no longer an advantage.

I want to give my favourite example of how modern technology has changed the nature of business in rural Australia. There is a man called Mick Denigan who makes hand plaited whips. He lives between Darwin and Alice Springs not noted as close to major markets. Mick established his own home page on the Internet informing the world of his products. His sales went up 700 per cent of which 25 per cent goes to the US. Technology in this case shows that location is no longer a crucial factor for the success of businesses.

Can I be confident that rural Australia will be able to take advantages of the opportunities thrown up by this technology?

I will answer this by illustration of the historical and economic trends that led to the growth of our cities. We have seen a centralising tendency for people and industries to be located within close proximity because of the economic advantages of scale and localisation. Firms provided large amounts of location specific fixed capital which required a localised workforce and a marketing and service infrastructure with people who could be on location within a short time span. These pivot industries then had their own general service infrastructure for their employees in a never ending chain, encouraging further concentration and local physical interaction.

This gave rise to economic advantages for industries and their employees to be concentrated in these cities. These economic advantages over rural Australia are now diminishing because of economic and technological developments.

Modern communications technology of e-mail, faxes and the Internet no longer require physical proximity. Also, economic developments no longer mean that the greater value-added for many industries now requires the physical proximity of many employees. The changing composition of our consumption is switching from place dependent production of goods to services that may or may not be generated locally. Many workers and their families are becoming freer to pursue economic opportunities in other locations. This is not to deny that cities once located do not provide competition for alternative regions for future development. Paul Krugman, a noted US economist made this comment about Los Angeles.

There was oil there once, but it's gone now. It was once a good place to make movies, because of the clean air and good weather; but nowadays movies are made indoors or on location, and anyway the air is smoggy. It was once a good place to build airplanes, when they were assembled out of doors and test-flown on the spot, but these days aircraft are built in factories, and the air traffic controllers would not appreciate it if you took a casual spin over LAX.

NSW provides its own example of the impact of history. The classic example is the stopping of the southern coastal railway line at Nowra. The northern rail line continued from Newcastle to Queensland. The end result of the comparison – north coast New South Wales developed a strong economic momentum and a series of large towns. South coast New South Wales to the Victorian border is undeveloped in comparison.

Our cities have had advantages in the past – the economies of scale. Nowadays, though, more people are recognising the problems or diseconomies involved in living in a big city. The high costs of congestion – of traffic jams, bumper-to-bumper traffic, sardine standard public transport in peak hours are becoming more and more of a disincentive to urban living. Notwithstanding recent media coverage, crime rates in most rural communities are lower than for their urban counterparts. The social climate provides a better lifestyle for rural Australia than in the big cities. The economics of location no longer demand concentration in the cities. The only other advantage provided by our cities has traditionally been access to health, education, cultural and entertainment facilities. Technology and change in tastes no longer prevail to the advantage of the cities as they did before.

The living standards of rural Australians have constantly been pressured by the concentration of health facilities in the major metropolitan areas. Fortunately we are now seeing a turnaround with

medical technology whose time is coming – telemedicine. There are enough examples around the world whereby the medical diagnosis by specialists such as radiologists, can be undertaken without having to be in the physical proximity of the hospital where the x-ray was taken.

In America there are reports that telemedicine has more frequently been taken up in home health care for the elderly who are too frail to travel. These televisits reduce costs, they are done more often, cut hospital rates and the length of an average hospital stay. I must admit that in most of the world this technology has not been extensively adopted except in places where legal niceties are irrelevant and the goals are already dominant. The US army favours telemedicine to save its soldiers' lives and American prisons favour telemedicine because it removes the security problems of transporting sick criminals out of their jails. In Australia we are already a world leader in telemedicine.

In Sydney we have seen a demonstration of telesurgery using remotely controlled robots. These robots are already in use in metropolitan hospitals where they are voice controlled by the surgeon. The next step is to be taken; that is a surgeon can be active in an operation at a remote site. For too long isolation has been a factor inhibiting doctors in going into the bush. By supporting them with technology we can alleviate some of this isolation and increase the skills available to remote communities.

The development of our tertiary education sector provides another example of how technology has been moving to provide access to the greater number of students no matter their location. Who can remember that Oxford and Cambridge Universities provided the model for education in vast parts of the world. Oxford and Cambridge were based upon the colleges system with the best academics as tutors, but very few students getting the privilege from learning from those great minds. We have progressed from there to the bigger lecture theatres which I know are more impersonal but do allow more students the privilege of direct learning. The latest development in communication technology is where we are getting to the stage that it does not matter where the lecturer or the student is located. Students will be able to access video tapes or by directly plugging into other forms of communications through the Internet.

Though our standard university model can still provide for rural Australia, dare I say, the most dynamic of the universities in Australia are proving competitive, nationally and internationally, in providing for and attracting students. Central Queensland University with campuses in Rockhampton, Emerald, Bundaberg, Mackay, as well as Brisbane, Melbourne and Sydney comes readily to mind.

Some could view this as the downgrading of quality, a corruption of the elites. It is better to view it as a democratisation of access. The

symphony orchestras of the world could only perform before small select groups. Recording technology has continued to improve providing greater access for more and more people to the benefit of the symphony orchestra. With modern digital technology and recording and playing equipment, the symphony is coming to everyone.

Sydney claims its premier position for people with facilities such as the Opera House and the Art Gallery of NSW. There is only one Sydney Opera House and it can be said that it can provide a unique attraction for this city. There is a counterargument. There is only one Tamworth Country Music Festival, there is only one Stockman's Hall of Fame at Longreach. We should recognise this diversity of attractions throughout Australia. However, the uniqueness of all these facilities will no longer be as important in the social lives of the citizens of this nation. Tastes are changing along with technology. A common leisure activity is surfing the Internet. This requires no specific location as it is an activity open to anyone in Australia with a PC and a modem.

I am confident that the improvements in communication technology are moving the trends in society back in favour of rural Australia. We have always known the advantages of living outside the cities. The disadvantages are now being conquered by technology. How can I be confident that these scenarios of the future are likely to be realised? The major management consultancy McKinsey and Company have just published a report on how modern businesses can work together no matter where they are located. In that report they said:

Technology has made global teamwork an everyday reality for thousands of people. Software developers in the United States and Europe work with programmers in India to design systems and write code; bankers trade a common book of US Government bonds around the world 24 hours a day; medical specialists collaborate with local doctors in remote regions to diagnose and treat rare conditions; and country managers coordinate production plans and marketing campaigns across Europe. Video conferences, voicemail, electronic live-boards, the Internet and corporate intranets, groupware, and virtual team rooms are just some of the technologies that enable people to work together no matter where they are based, giving them access to countless new business opportunities.

When the management consultants are addressing potential problems even before they arise, I think I have extra support for my view of the future developments of rural Australia.

The Federal government cannot direct people to live in particular locations and does not want to interfere in the free choice of people. The policy framework we want to put in place will allow all the regions of Australia to sell their wares on an equal footing. The policy framework will ensure that rural Australia will not face the artificial disincentives created by the electoral power of the urban areas obtaining an inequitable share of the social infrastructure and their

dispersing of the social costs on the rest of Australia. The specifics of dealing with this imbalance can be seen through our networking the national program, whereby we have a Regional Telecommunications infrastructure fund that ensures that the benefits of new and existing telecommunications facilities and services can be realised by all Australians. It will reduce the disparities of access to such services and facilities between Australia in regional, rural and remote areas and those in urban areas.

One small component of this program is FRAN (Farmwide Regional Access Network). This is a set of trials testing such things as satellite data delivery technologies in remote areas, a prototype outback modem to combat the problems faced by rural on-line users and to provide a range of new services including daily news and weather reports, video conferencing, learning, direct trading, banking and shopping all on-line. FRAN will keep rural Australia in the loop of the emerging telecommunication revolution. We are already working from a base where the digitisation rate in rural areas matches that of metropolitan Australia.

We are seeing the end of the tyranny of distance for rural Australia and the communications revolution, apart from being the prime cause, will also be the driving factor in the electronic renaissance of our regions.



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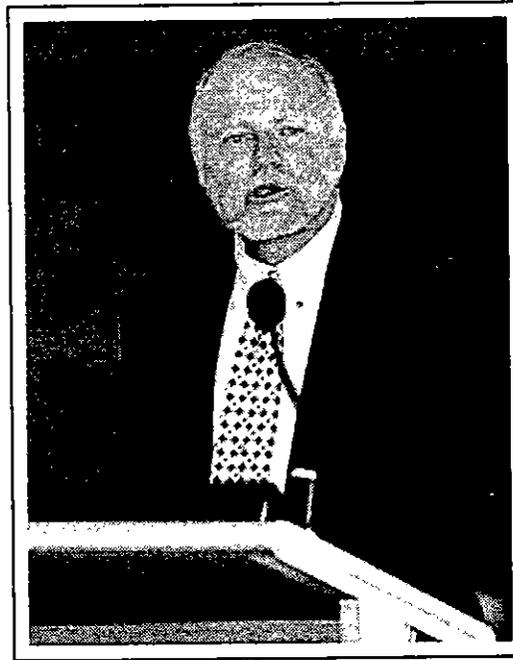


Photo - David Karonidis

David Salter

On Tuesday 24 March 1998, David Salter, former executive producer for the ABC's *Media Watch* with Stuart Littlemore, addressed The Sydney Institute. Although *Media Watch* has been for nearly a decade a television success, both Stuart Littlemore and David Salter retired from the program at the end of 1997. The move was not without controversy. In his address, David Salter reviewed the Littlemore years and reflected on why he left.

INSIDE MEDIA

WATCH

David Salter

I thought it might be useful to outline some of the major themes and philosophies that have guided *Media Watch* over the past few years. As well, I'll take this opportunity to respond to a few of the more common criticisms made of the program.

At a more personal level, this is also an appropriate occasion for me to bring my public association with the show to a close. I relinquished the executive producer's chair more than four months ago, but events have somehow conspired to keep the program in the news. Let's hope that now it's finally back on air with a new host and new producer, I can, at last, quit the field of battle.

Perhaps the most frequently voiced charge against *Media Watch*, (from journalists mind you, not the general public) is that we were too negative – that we concentrated too much on finding fault and too little on handing out praise. My response to that is twofold.

First, there's surely no need for the program to waste any significant amount of its precious thirteen minutes on telling journalists how good they are. They're all convinced of that already. They spend plenty of their time and space patting each other, and themselves, on the back. Self congratulation has become a media "house style" in Australia.

Second, it's always struck me as rather hypocritical of editors and journalists to demand that we find and praise the "good" in their work while they make their livings (and reputations) from precisely the opposite – from reporting the bad.

Let me explain. Tomorrow's TV news bulletins and newspapers will be dominated by bad news. They always are. I doubt very much that we'll wake to front-page screamers confirming there were no murders in Vacluse tonight, that Westmead Hospital has spent another 24 hours routinely saving lives, easing pain and delivering babies, or, that nobody in Canberra said anything silly or broke an election promise yesterday. Of course not. It's bad news that sells.

Yet precisely the same people who peddle all this conflict, crisis,

doom and disaster want *Media Watch* to produce items such as: "Daily Telegraph Police Roundsman Gets Rape Report Mostly Right". Not likely. As Stuart Littlemore has often remarked, it's amazing how much journalists hate it when they have a little journalism done unto them.

So, I'm afraid most of what I'll be saying tonight comes from a critical standpoint. Of course many journalists contribute good and honest work, but they don't need our praise for simply doing what they're paid to do (and, more importantly, what the public has a perfect right to expect of them). That would be like a reluctant witness expecting the judge's praise for having eventually told the truth under oath.

Media Watch is now in its tenth year. Of late we've tended to take its existence pretty much for granted – almost as a public right – yet there've been times when its future looked bleak indeed.

Some of you may know Chris Anderson, the current boss of Optus, who had a long career at Fairfax, ending up as their editor-in-chief. But for one inglorious year or so he landed at the ABC as its head of News and Current Affairs. Now Christopher was no friend of *Media Watch*. In fact, he seemed determined to kill it off, (which may or may not have had something to do with our exposing some of his more asinine ABC decisions).

Anyway, late in 1994 I was summoned to a meeting with Anderson and the then Director of Television, Paddy Conroy. In a roundabout way they told me they'd decided the show was for the chop. It would finish within three months. Not surprisingly I argued for its survival, saying that while *Media Watch* might occasionally have been one of the Corporation's more troublesome offspring, its popularity was undeniable. From memory, I think, I blurted out something along the lines of "You buggers mightn't like it, but the public certainly do!" Anderson's response will always stick in my mind as one of those priceless moments of genuine self-revelation. "Oh yeah" said Chris, "but the audience only likes your show because they all hate the media."

Quite. All the paranoias and persecution complexes of a lifetime journalist confessed in a single, unthinking comeback line. Anderson and the ABC parted company shortly thereafter; *Media Watch* survived.

But it's precisely this troubled relationship between journalism and its consumers which continued to provide such rich grist to the *Media Watch* mill. And what a pack of bastards we were! How *dare* we subject the media to precisely the type of scrutiny and analysis they claim as their role! Worse, what we broadcast might even help the general public become more enlightened and critical consumers of the media (and less willing to accept the distortions, prejudices and incompetence of a trade whose toothless mechanisms of "self regulation" reduce the phrase *Code of Ethics* to virtual oxymoron).

Traditionally, the media see their central, privileged position as flowing from a self-proclaimed duty to serve what they like to call "the public interest". This is a handy notion they invented for themselves more than a century ago. In truth, the media usually only enlist the "public interest" defence when they're seeking to justify prying into anything they think the public might be interested in. Those are, of course, two entirely different concepts.

And what protects the Fourth Estate in this never-ending search for truth and justice? Well, they see their rights as deriving directly from everyone's right to freedom of speech. For their purposes, the media usually express this as the "freedom of the press", that glib catchphrase so gleefully invoked by editorial writers whenever they need to excuse their latest excesses.

But once again, "freedom of speech" and "freedom of the press" are *not* the same thing. Freedom of speech is an essential individual right for any citizen in a liberal democracy. Freedom of the press, however, is reserved for those who own or control a press, television or radio station. In other words, it's a particular and powerful privilege, reserved for a particular and powerful few.

In Australia the custodians of that freedom are not the journalists and editors (no matter how they love to keep telling us they are), but the handful of billionaires who own publishing and broadcasting empires – Packer, Murdoch and whichever permutation of the two will eventually snaffle the Fairfax group and/or buy out Kerry Stokes.

There are, of course, some significant constraints on this awesome power. From the moment cheap and speedy printing made mass communications possible, governments recognised the immense damage the media could do. They quickly established laws designed to at least dissuade proprietors from abusing their self-proclaimed freedoms.

Thus, we have the law of defamation to protect us from false accusation; the laws of contempt to ensure our right to a fair trial; the law of copyright so that we can benefit fairly from our own labours; and, more recently, the anti-vilification and anti-discrimination laws to protect us from attack on the basis of race, sexual preference or belief.

What strikes me about all these careful constraints on the media is that each is, in fact, an attempt to preserve our individual freedoms. In other words, the media can't always be trusted with their rights. We've had to legislate to protect the private citizen from the "freedom of the press".

As the playwright Tom Stoppard had one of his characters say: "I'm all for freedom of the press. It's the newspapers I can't stand." And that's where *Media Watch* comes in. The program's principal impact has been to help make the media more directly accountable to its readers, listeners and viewers.

During a recent television discussion a *Sydney Morning Herald* journalist used the reflexive verb "to be 'littlemored'". She was confident viewers would instantly understand the word to mean "to be nationally exposed for an ethical breach". Stuart himself has often said that the show's essential technique was to shame journalists into better work, and indeed the pillory can be a most persuasive tool.

But why is there this troubled relationship between the media and its consumers? My view is that it springs from an enduring lack of trust – on both sides. For their part, journalists tend to have a pretty low opinion of the public, particularly those who don't read their newspaper or watch or listen to their programs.

The *Telegraph*, for example, seems mainly to be aimed at truck drivers and checkout girls and is contemptuous of anything that smacks of education, culture or intellectual effort. The *Herald*, on the other hand, thinks the world stretches no further west than Stanmore and that their entire readership is obsessed with home decoration and real estate prices. (To the *Herald*, the search for the perfect coffee latte ranks in importance with finding a cure for cancer or the quest for world peace.)

You can make similar general observations about the hypocritical attitudes of television and radio to their audiences. On their multi-million dollar salaries, Alan Jones and Ray Martin feign sympathy for the Little Aussie Battlers on Struggle Street, yet in the very next breath, rip into government welfare support schemes and flay the long-term unemployed. Meanwhile, ABC television keeps praising itself for its commitment to local programming while our ratings strategy is built around British imports such as *The Bill*, *Ballykissangel*, *Pie in the Sky*, *The Vicar of Dibley* and the utterly appalling *Keeping Up Appearances*.

But there's a level of contempt on the consumer side as well – a contempt which, to my mind, stems from repeated betrayals.

At core, the fundamental duty journalists must discharge in return for their rights and freedoms is the simple duty to tell the *truth*. Newspapers, radio and television are our primary sources of information. As consumers, we actually have no choice but to assume that they will deal in facts, not fantasy. Otherwise the whole framework crumbles.

Yet, it is so easy to deceive! Words printed on a page take on immediate authority when we have no more than our own experience and intelligence as a benchmark. The combined effect of a headline, picture, caption and sensational lead paragraph is a powerful package. Many of us will have neither the time nor interest to read any further, so that first impression – right or wrong – becomes the whole story.

On television we are all deceived nightly by the whole bag of Hollywood tricks: distorted camera angles, skilful editing, suggestive commentary, false file footage, manipulated interviews – even

emotional music. Some of the most effective *Media Watch* items have been not much more than simple deconstructions of TV news and current affairs stories. Just to explain the techniques employed was often enough to expose the deceptions.

In his wonderful screenplay for the film *Network*, Paddy Chayevsky has the deranged news anchorman bellow this at his audience:

Television is not the truth! Television's a goddamn amusement park! We deal in illusions, man. None of it is true. You people are the real thing – we are the illusion!

Absolutely correct, but, everyone continues watching television and buying newspapers. Despite the repeated dishonesties we keep coming back for more. Why? Because most of us feel a need to be informed about the world beyond our immediate knowledge, and only the media – imperfect though they may be – can provide that service.

That is precisely why good, reliable journalism is so absolutely vital to all of us – and why *Media Watch* played such a crucial role in trying to maintain (and maybe even lift) the standards of Australian journalism.

Regardless of what was often written about the program, it did not pursue personal vendettas against individual journalists. "Vendetta" implies revenge: we had nothing to revenge ourselves for. Greg Sheridan, Ray Martin, Peter Cullen, Paul Lyneham, Alex Mitchell and all the other regulars earned their fleeting fame on *Media Watch* entirely by their own efforts, not ours.

And regardless of what was also often written about Littlemore and *Media Watch*, we did not "hate" journalism itself. In truth the opposite was the case. It was only because we cared so much for our craft and its function that we were prepared to take on the unpopular "watchdog" role. I've been in various forms of journalism all my working life; Stuart gave the craft 20 or so full-time years before taking up the law. We both admire good reportage and thoughtful comment, but we also both deplore the slipshod, the lazy and the just plain bad.

So, despite our well-founded suspicions we remain believers. And often, despite those same well-founded suspicions, we keep having that trust betrayed. But those of you who've watched the program regularly will understand there was much more to the *Media Watch* brief than just exposing unvarnished deceptions.

As a starting point, we've always been careful to remind our audience that with the exception of the ABC, just about everything they see, hear and read is, first and foremost, part of a business. The media predominantly exists to make profits. For all but a lucky few of us, journalism – the way we make our livings – is, in truth, not much more than an uncomfortable bed-fellow of advertising.

Remember that newspaper companies make their millions selling

advertising space, not news. The revenue return from cover-price sales most probably doesn't even meet the cost of printing. After regular features and the first few pages of news and sport, it's only the space left over after all the ads are placed that gets to be filled with copy. Even the number of pages in any given edition is usually dictated by the volume of advertising sold for that day, not by the volume of news.

Meanwhile, commercial television networks grow rich selling thin air – and filling up the minutes in between with anything that will deliver their advertisers the desired audience. It may horrify you to learn that in commercial TV, it is the advertising which is referred to as "content", not the programs. In fairness, though, I should point out that print and television tackle this tricky balance between editorial responsibility and the commercial imperative in different ways.

Established quality broadsheet newspapers such as *The Age* and *The Sydney Morning Herald* generate enormous revenues from their Saturday classifieds, so they can often indulge themselves in journalism which is not, in itself, cost-effective. An investigative writer might be given two or three months to come up with a major piece. That seems lavish, but in relation to the paper's overall income and expenditures, it's a mere trifle.

Television, on the other hand, measures its profits directly by setting the cost of production against the advertising sold within each program. Quality current affairs television journalism is labour-intensive, time-consuming and just plain expensive. So, the commercial shows quickly learn to run lean. Lean and nasty. It's not that they couldn't deliver good work, it's that they make so much money doing what they do badly, that they can no longer afford to do what they could do well.

But business also means competition, and – so the free-market orthodoxy goes – competition invariably delivers greater choice and higher standards. I regret to say that in the case of the media we may have found the exception that proves the rule.

For example, instead of lifting standards, competition between *A Current Affair* and *Today Tonight* keeps dumbing them both down. The shows try to outdo each other not in the quality of what they broadcast, but in their unashamedly popular appeal. Be popular or perish. And, as Joseph Goebbels demonstrated (and Pauline Hanson well understands), the swiftest path to popular support is by pandering to popular prejudices. That's why – at least on our nightly commercial news and current affairs shows – most crime gangs are Asian. That's why any young unemployed person north of Newcastle is a dole bludger. That's why the hidden cameras always show tradesmen to be crooks and trade unionists to be "rotting the system". It's a foolproof formula: keep confirming ignorant prejudice and watch your ratings rise.

The free marketeers will, of course, respond by claiming that if so many people actually watch those programs, then that must be the material the public wants to see – the old "it's-popular-so-it-must-be-good" argument.

But ratings do not measure what people want to see on television at all. They can't. They simply measure the choices viewers make from the narrow range of material on offer at a given time – most of which is tripe. It's salutary to remember that each week, without fail, the highest rating network by far is Channel Off. More households actually choose to leave their goggle box off than be claimed by 7,9 or 10.

And as to the orthodoxy that competition will deliver media consumers greater choice, tell that to the newspaper readers of Brisbane, Hobart, Adelaide, Perth and Darwin. They now have a choice of precisely one local daily paper – all but one of which is owned by one American. Rupert Murdoch currently controls around 64 per cent of the Australian print media. That doesn't sound too much like "choice" to me. There's another, equally worrying, aspect of this high concentration of media ownership in Australia. For individual print journalists, the realisation that they can either work for Murdoch, Fairfax or nobody tends to make them timid and fearful of management. When there are only two company lines, you quickly learn to toe one or the other.

But I digress. My main point is that competition in the media not only leads to crass populism and lack of diversity, but that it also tempts ambitious journalists and their editors to cut corners and compromise their own ethical standards. The pressure to succeed can easily overpower any instinctive or professional resistance there may be to unethical practice.

In newspapers, the recognised path to advancement is through building a big reputation to go with your by-line. Often, the temptation to make a story just that little bit better than it really is can be quite irresistible. An embellishment of the facts or an "improved" quote might make the difference between a few drab bars on page 8 or a front page splash above the fold.

Similarly, it takes a particularly brave television reporter or producer to refuse directions from a desperate executive producer or station boss, hungry for a ratings win. When you're being asked to beat stories up to ludicrous levels on a daily basis, it soon gets very hard to know when you've crossed the ethical line.

Human nature, I'm afraid, prompts many of us in television, radio and newspapers to get away with the most we can. The job of *Media Watch*, on behalf of the consumer, is to bring those impulses to account.

Our critics, (usually the same journalists, columnists, editors or producers who've been the subject of Stuart's caustic prose) have

always been keen to underplay the central thrust of the program. For example, rather than honestly confront the serious issues we've raised, they'd complain we spent too much time on errors of language.

In their zeal to prove us "trivial" they conveniently overlook the fact that words are the only real tools of their trade. We rightly expect journalists to have a reasonable command of spelling, punctuation, syntax, grammar and meaning. After all, if their electrician took out a chisel to change a light bulb, the journalist would be the first to complain. (In any case, most of these "howlers" were included simply because they were funny, but journalists are notoriously unable to see any joke at their expense.)

It's also worth noting that this type of humorous material occupied no more than 10 per cent of the screen time of the series. The vast bulk of *Media Watch* was always devoted to serious reporting, analysis and commentary.

I believe our most effective technique in all this was what we called the "exemplar method": Everything was relentlessly text-based. Rather than try to adopt an abstract, didactic position on a given media issue and then illustrate it with extracts, we would take specific current examples as our starting point, using them to then support a broader thematic point.

Thus, our extended analysis of the way *A Current Affair* bullied the Paxton family became an illustrated essay on the ugly power of media prejudice. Exposure of the "Chase for Skase" fabrication on *Today Tonight* showed that truth is often the first casualty in the chase for ratings. The blatant commercialism of the ABC's own Sports Awards revealed how budget pressures can corrupt a great public institution. When the senior golf writer for *The Australian* used his columns to plug his private PR clients the issues of disclosure and conflict of interest were made real. Plagiarism speaks for itself, as Messrs Smark, Sevier, Powell, Jones and many others well know.

Another frequent accusation levelled at the show is that we never corrected our errors. That is absolute rubbish.

Any demonstrable and significant error of fact was corrected in the next available program. For years I used to patiently write off to each journalist who made this charge, challenging them to list their examples of where we'd been wrong in fact, and then failed to correct. Not *one* has ever respond, yet this shibboleth about *Media Watch* persists as cherished newsroom folklore, to be trotted out in the first few paragraphs by anyone writing about the program.

Mostly, what journalists declared to be errors of "fact" in *Media Watch* were nothing more than opinions with which they disagreed. A large proportion of the program was always comment, fairly based on a reasonable view of the facts. Sure, that comment could often be harsh, but that doesn't make it into an error of fact.

Not surprisingly, some of the reporters, editors and producers who were at the receiving end of such comment thought it unfair or unreasonable. Once again, their thin-skinned bleating could often be seen as no more than that familiar unwillingness to suffer the same journalistic techniques they so gleefully impose on others.

Late last year *The Bulletin* magazine got so hot under the collar about *Media Watch* pointing to its declining standards – and declining circulation – that they lashed back with a double-page spread attacking Littlemore and the show. Their piece de resistance was a prominent offer to publish a "Right of Reply" from any journalist who could establish they'd been wronged by our program. The editor, Gerald Stone, even went on national television to repeat his invitation. Six months later we're still waiting for *The Bulletin* to publish a single line on the subject.

Many of those same critics who are so uncomfortable with comment then quickly shift their ground to what they're pleased to describe as a "lack of balance" in *Media Watch*.

That's a charge to which I've always been quite happy to plead guilty. After all, we weren't producing a news or current affairs program. We had no obligation to pretend we were presenting so-called "balanced" coverage. After all, what's the "balance" to plagiarism? What's the "balance" to undisclosed personal interests? What's the balance to racial prejudice or a shameless beat-up? As my sadly missed old *This Day Tonight* colleague Tony Joyce once said, "I've never believed that 50 per cent truth and 50 per cent bullshit constituted balance".

At the same time, I don't want you to think we considered every episode of *Media Watch* to be faultless. Debate within the team was always robust and our regular Tuesday morning post-mortems could be savage affairs. Let me assure you that the ethical standards we sought to impose on ourselves were at least as demanding as those we expected of others.

Yes, we sometimes overstated our case. Yes, we may have occasionally been a trifle unfair. But, in the main, I believe the program did good work to a difficult brief.

In a way, a measure of the show's success was that while journalists seem to hate us – or at least hated Littlemore (as usual they played the man, not the ball) – the program itself was amazingly popular with the general viewing public.

Indeed, to a large extent, *Media Watch* was sustained by its audience. We fielded more than 100 letters and faxes every week, each of which received a personal reply. To that precious flow of information, suggestions and feedback you can add at least another 50 phone calls a day. That's around ten times more interaction than most other ABC shows manage to generate with their viewers – and

remember we were on air for just 13 minutes a week.

From a personal standpoint it could often be awkward having to criticise old mates and respected colleagues on national television, but amazingly, I don't think I lost a single friend through *Media Watch*. I'll admit, though, that running the gauntlet of the canteen coffee queue on Tuesday mornings after we'd just lambasted an ABC show the night before was sometimes a test of courage. For the most part, ABC staff understood it was essential to the show's credibility that it should be at least as critical of their output as it was of the commercial networks.

And finally, to their great credit, ABC management never interfered editorially in the show, even when an expose as potentially damaging as our "Whitlam Lectures" item turned up in the script. So, if you ever need your faith in the role of genuinely independent public broadcasting bolstered, please remember the way the ABC has supported - and endured - *Media Watch*.

We may have occasionally cost people their jobs, but we also know that the simple fact of the program's existence was often enough to moderate journalistic excess. There can't be many television shows that can honestly claim to have made such a difference.



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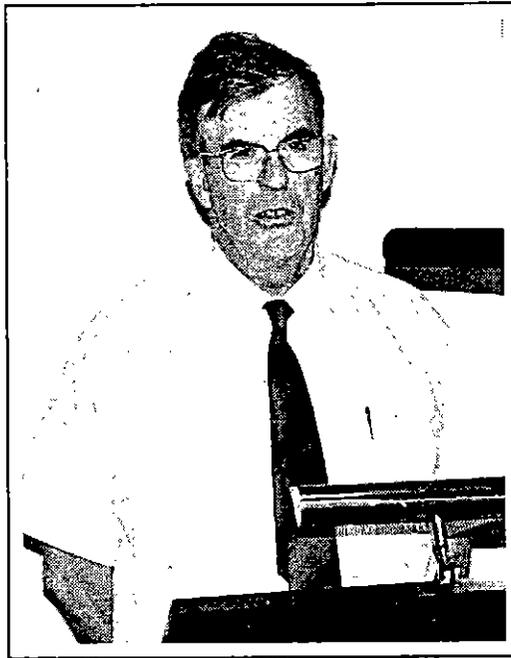


Photo - David Karomidis

Alan Gill

The story of the massive child migration program across Britain's Empire is finally coming to light. Many of the orphans sent abroad found themselves in Australia. The program was supposedly voluntary but as Alan Gill's book *Orphans of the Empire* (Random 1998) shows, the children had little idea about what they were undertaking. "Will we be home for tea?" asked one little girl as she embarked for Australia. Alan Gill spoke for The Sydney Institute on Tuesday 31 March 1998 and reflected on some of the stories.

ORPHANS OF THE

EMPIRE – CHILD MIGRATION TO AUSTRALIA

Alan Gill

"Stolen children" ("separated children") are very much in the news. The term is currently applied to Aboriginal children forcibly removed from parents. But there are other contenders:

- Children born to unmarried mothers in state and private hospitals;
- Los Desaparacidos or children removed from political prisoners by the Argentine Junta, and raised by officers of the now discredited regime;
- Lebensborn children or children with Aryan features kidnapped from occupied countries as part of the Nazi eugenics program;
- Child migrants which are the subject of today's talk;
- Railroad children – an American variant of the above or children despatched by train from orphanages in New York to sidings in the mid-west where childless couples could "help themselves".

The Aboriginal "stolen" children have received enormous publicity. Slightly less has been given the British child migrants whose story has obvious parallels. A large number of Australian-born children shared the lot of the child migrants – ie. orphanage life – so much of what I have to say applies to them too. Some Aboriginal children were also sent to the Christian Brothers' Western Australian orphanages, so there is a degree of overlap.

When journalists write stories they are expected to answer the questions like Who? What?, How?, When?, Where?, Why?, Which? Who or what are the child migrants?

As commonly understood, child migrants are orphan children who migrated unaccompanied (other than with a group escort) from an institution in their country of origin to be raised in an orphanage or institution in another country, a country like Australia. They were aged approximately five to twelve. Some were younger, others were older. If you came with your parents or an aunty, even as a babe in arms, you were not, for the sake of this exercise, a child migrant. Terms used to

describe these children have included war orphans, "Lost Children of the Empire" and "Leaving of Liverpool" kids. About 20,000 came post World War II; a similar number came in the inter-war years. The traffic actually began in the convict era when the distinction between felon and free was blurred. School leavers came out under broadly similar schemes, the best known being the Big Brother Movement and the Dreadnought Scheme. These teenagers, aged fourteen plus, entered directly into the workforce. There were about 25,000 of them. Unlike the child migrants, they had parental permission and indeed support. The media tended to call both groups "child migrants". In a sense, of course, they were.

Child migrants, by which I mean the younger variety, came from Britain and Northern Ireland, also Malta. A number of children were from the Irish Republic, but they came via England. De Valera disapproved strongly of child migration, which he considered socially harmful. It's a marvellous story, told in my book. The Christian Brothers tried to get him to change his mind.

There is a problem with the word "orphan". One definition says that a child in an orphanage is an orphan. But many were put into an institution on a temporary basis – at least so the mother thought. The reasons varied from poverty and ill health to illegitimacy. An orphan was not necessarily a child without parents. Migration was supposedly voluntary. It was a case of – hands up if you'd like to go to school on the back of a kangaroo; the next Barnardos "party" will leave on such and such a date and so on. A Barnardos escort told me how a little girl tugged at his trouser leg and asked, "Will we be home for tea?" The scheme was well-intentioned, like that for Aboriginal children. And that's the rub. The phrase "a new start" was employed. It was not realised that the very uprooting of the children was harmful. (I had an argument with an HREOC person and challenged the use of the word "genocide" in regard to the Aboriginal children. The response was "cultural genocide".)

Once in the orphanage system, a child was entrapped. There was an assumption that there should be a break with the past. Hence lies were told like, "Your parents are dead". Parents might receive no reply if they wrote to the orphanage, or even to their own children. They were fobbed off with extraordinary stories like: "Your son was adopted by a wealthy middle class family" or "He is a priest in South America." A woman who thought her daughter had been adopted into a wealthy family left a legacy to the British orphanage which first took her daughter. The mother died without knowing the awful truth which was very different. Children's names were changed, children were substituted with others; ages were doctored to suit shipping lists. Forms were signed with the illegible signature of the Mother Superior.

How did child migration come about? In April 1619 King James I

of England (James VI of Scotland) hit on a novel solution to the problem of the children of his courtiers "pissing under the staires". The answer was to ship them to the tobacco plantations of Virginia. How did it take place? In the physical sense by sea, until about 1960 when they began to come by air. It provided, at least, an element of adventure in their lives. Home-going Australians had their passages paid to be escorts. The first post-war vessel to arrive, the Royal Mail vessel *Asturias*, ended its days as a stand-in for the *Titanic*.

When did it take place? As I have said, the traffic began with the transportation of children to the American colonies in the 17th Century and later to Canada and then Australia. The first Barnardos children came to Australia in 1883. There was the Fairbridge Farm School, Pinjarra, from about 1921, the Christian Brothers from 1939 and others after World War II. It is incorrect to talk about "war orphans". Wartime was the one period when there was no child migration. There were evacuees. Three ships – *Batory*, *City of Benares* and *Diomed* - left at about the same time in September 1940. On 17 September the *City of Benares* was sunk by a U-Boat with the deaths of 77 children. The other two ships arrived safely but evacuation was brought to a standstill. About 1,000 children came here, many of whom returned as permanent residents in later years. It's a wonderful story. Child migration ended officially in 1967. It just fizzled out.

Where did they go? They were sent to Canada, Australia, Rhodesia, New Zealand, South Africa and the West Indies. In Canada the kids became farm labourers and unpaid slaves. They suffered isolation and the cold. In some respects this was worse than the indignities of Bindoon in Western Australia. Rhodesia was a special case. There the orphans were educated to rule.

Why did it happen? This is the hardest question to answer. It was seen as a well intentioned, new start. Barnardos and the Salvos chartered entire ships in a crusade against "idleness". At the same time there was a hint of less worthy motives such as the attempt to have the children out of sight and out of mind, using the Dominions as a dumping ground. There were also elements of patriotism and race, building up the Empire with good British stock, or useful cannon fodder against the Yellow Peril. Child migration as practised in the present century was thought up, if that's the right word, by the British and Australian governments. The children who came out were wards of the federal government, that is of the Minister for Immigration, who delegated some of these powers to his state counterparts.

Which organisations were involved? Some 30 religious or quasi-religious organisations and charities were involved. The best known were Barnardos, the Salvation Army, Fairbridge, the Christian Brothers, the Sisters of Mercy, the Sisters of Nazareth and the Good Shepherd Sisters (indirectly). Barnardos was the biggest and the best

known. It only took British children and was confined to New South Wales. It had a house system, was well run and its staff were well trained and motivated. There was snobbery attached to employing a Barnardos girl. Fairbridge was a bit snooty. Its farm schools were at Molong and Pinjarra. The motto was "Boys to be farmers and girls for farmers' wives". Woodsy, a Dickensian figure, gave ritual punishment on Sundays. He was loved and loathed.

The Salvation Army operated for child migrants before World War II only. It chartered entire ships. Children marched through city streets to embark. There was flag waving and jingoistic speeches, like "joining up" to serve in the colours.

The Christian Brothers took boys only. They cared for about 1,000 child migrants but many times this number of Australian children. All their child migrant orphanages were in Western Australia. Castledare (junior orphanage), Clontarf (brighter children upon leaving Castledare), Tardun, in the bush near Geraldton, and Bindoon - unofficially for the less bright children and by far the most controversial.

The Sisters of Mercy had orphanages for girls in Goodwood, South Australia, and others for girls and boys. St Joseph's, Neerkol was near Rockhampton. The Good Shepherd Sisters ran "The Pines", a correctional home in South Australia and also commercial laundries. The Sisters of Nazareth had homes in Western Australia and, I think, South Australia. This order has been more co-operative than most in helping to unite "children" with their relatives. The Sisters of Mercy orphanages, I have to say, earned a reputation for cruelty in Australia, Ireland and elsewhere. Some of this was of a level which, even allowing for a degree of exaggeration, was totally inexcusable and - even by the standard of the day - criminal. Just why this should be so is a mystery to me.

An explanation by a psychiatrist, herself a nun, was that (a) women were in the order who had no real sense of religious calling and were acting out their frustrations on the children, (b) unlike other bodies looking after children they did not seek this work but acted in response to their bishops, (c) power and authority - the total lack of equality between the governing and the governed - tends to corrupt; a common feature of institutional life.

A worse feature, and it gives me no pleasure in saying so, was that the Neerkol orphanage in particular, gave employment to male paedophiles, including two priests, one of whom followed the other as chaplain to the orphanage. As for the Christian Brothers orphanages in Western Australia, these institutions had good, decent and highly motivated Brothers. They also had people who were gross. Brutality and sexual deviancy was commonplace. Castledare orphanage, which took the youngest children, was virtually a recreation centre for

paedophiles. It is even more outrageous because this situation was suspected, indeed known, to senior clergy who did very little to combat it. Some of these offenders are still alive. Additionally, there was a culture of police incompetence, toadiness and tribalism, verging on criminality. Victims of sexual and physical abuse who ran away, and were caught, had their tales pooh-poohed by men who should have listened, or at least been suspicious of the children's physical injuries. They were returned, literally, into the arms of their offenders. The question is often asked why there was a relatively high number of paedophiles in the childcare institutions and the religious life? A common or bar room explanation is that compulsory celibacy is an "unnatural" lifestyle which *turns* people that way. This is seen by others as a subtle attack on one of the planks of the priestly ministry. It is ridiculed by Fr Brian Lucas and others who say that a person is by instinct heterosexual, homosexual or paedophilic and that no matter how frustrated a person might be, he would not turn to sexual practices which he, as most of us do, finds obnoxious.

Another theory is that paedophiles "go to any length" to be with children (witness a case in the US involving a paediatrician). And that what better place could there be than an orphanage? Some find this a bit far-fetched. There are easier ways, after all, to be with children.

Another view is that compulsory celibacy and the absence of women in the milieu attract a person for whom marriage is not a desired option. Such a person may be sexually and emotionally immature and a latent paedophile. Furthermore, a person with such tendencies might find celibacy rules attractive and providing encouragement to stick to the straight and narrow. People sometimes say to me, when discussing child migration, "Ah, you must take into account the context of time". This is a spurious argument. Some of the things – though not all of the things – described to me, and in my book, would be as improper in the 1950s as they are today. Against this, as I have said, child migration was seen in its day as a positive step which deserved and received encouragement.

In his memoirs published privately in 1970, Noel Lamidey, formerly Chief Migration Officer at Australia House in London, lauded child migration and lamented:

I have always felt a sense of personal failure that we had not been more successful in this field [child migration] and able to move with more expedition far greater numbers than were achieved. It seemed tragic that so little could be done for the thousands of kiddies huddled together in orphanages in an atmosphere of cold and stark misery when by contrast so much better could be done for them in Australia.

He went on to complain:

Our best endeavours [in child migration] were often frustrated by the attitude of many working in the field of social welfare in the United Kingdom. They took the view that the psychological

reaction to many young children being uprooted from their native environment was injurious. This I believe to be an entirely erroneous conception.

Some commentators believe the experiences of child migrants and, indeed, of Aboriginal "stolen children" offer a lesson for the future. A lady wrote to me recently: "As a society we are quick to judge past practices but can we second guess the policies that will become the present generation's skeleton in the cupboard? Or do we only learn by our mistakes and hence find ourselves looking back in puzzlement or anger? In other words, are there ' sleeper ' issues which might give us grief decades from now?"

Apologising or "saying sorry", is very much in the news. President Bill Clinton has said sorry for the slave trade, Prime Minister Blair has said sorry for the Irish potato famine; the Vatican is sorry for the Holocaust. The 26 May 1998 will be a "Sorry Day" on behalf of the Aboriginal stolen children, but our Prime Minister, John Howard, has yet to be convinced. The Christian Brothers in Western Australia and (now) in Ireland have said sorry - via newspaper ads - for abuses in institutions. A glitch in the Australian apology was that Old Boys of the institutions who received compensation were asked to sign a document stating that the Christian Brothers "do not admit and in fact deny that any wrongdoing occurred".

A British government delegation is visiting Australia in June 1998 to interview child migrants. My hunch is that it will apologise for child migration and invite a group of former child migrants to visit Britain at Her Majesty's expense. Sources say there could be tea at Buckingham Palace...in which case, the wheel has turned full circle because this is precisely how Barnardos children were sent off in the 1920s.

So I revert once more to the question, "What can the British or Australian government or for that matter anyone else do to help?" Many former child migrants are settled, well adjusted citizens. Many others are not. They are plagued with alcoholism, self doubt, inability to form relationships, physical illness, not to mention educational deprivation - much of it resulting from their experiences. They suffer most of all from not knowing their backgrounds, parentage, even in some cases their ages and names. What they lack is what most of us seem to need - roots. It is essential that every assistance be given to them, if somewhat belatedly, to be reunited with relatives and surviving family members. Unfortunately, even the youngest child migrants are now in their forties. Accordingly, there is a race against time. All too often, reunion is with a headstone rather than a living person.



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Photo - David Karonidis

Pru Goward

The Office of the Status of Women (OSW) is the principal policy advising body to the Prime Minister on issues affecting women in Australia. Pru Goward is the First Assistant Secretary of the OSW. On Wednesday 15 April 1998, Pru Goward, a former ABC journalist, spoke for The Sydney Institute and outlined some of the arguments for a fresh look at women's affairs.

WOMEN IN THE

POST-INDUSTRIAL SOCIETY

Pru Goward

Tonight I want to talk about the next step in the gender debate. In public policy at least, the time is now right to review the feminist model as a describer of society and as a starting point for public policy prescriptions.

To be honest, from my new perspective within the bureaucracy, it seems to have been of limited usefulness, although you would have to say it has been better than nothing. More disappointing has been the failure of theoreticians in this area to develop an alternative model. This is despite the fact that a substantial body of work exists to draw on, such as the ground breaking analysis by Nobel Laureate Gary Becker, who attempted to develop an explanation for gender discrimination based on market failure as early as 1957¹.

An alternative to conventional feminism is clearly a paradigm based on the competitive market forces of post industrial society. Becker for example, describes gender discrimination as a form of market failure with an economic cost to business which they should wish to avoid. This approach is in contrast to feminist orthodoxy, which sees gender exploitation and discrimination as inherent in the nature of capitalism, capitalism itself being a patriarchal construct.

Feminist views range of course, from hard line opposition to capitalism in any form to reluctant support for a heavily regulated model. Capitalism certainly isn't perfect, but it is almost useless to see it as the source of the gender problem on a number of grounds, the most compelling of which is that most people, and that includes women, seem to prefer it to anything else they've tried.

Using the traditional feminist model, the fundamental rationale offered as justification for social initiatives that aim to improve the lot of women in society has been ideological or moral.

Yet history indicates that the weight of moral argument alone is rarely sufficient to achieve real and enduring social change of any sort. There are generally more earthly and pragmatic factors acting to change society, although these may often be overshadowed by the

drama of public morality plays. Technological change, economic development and political economy are more often the great drivers of social reform.

The times now are right for women. In the post industrial age there is a strong link between Australia's economic future and the advancement of Australian women; recognising and strengthening this link is now imperative.

This is something of a departure from feminist thinking, which understands the advancement of women as part of a far off optional social utopia; frequently relying on either state controls, revolution or the optimistic notion that men will stop oppressing and exploiting women because they have become nicer, more civilised and highly evolved. Since women are identified as the oppressed, according to feminist theory they have not needed improved moral character, unless of course, they are the exploiters of other, even more marginal women.

Feminist orthodoxy relies on the State playing a strong regulatory role, a role where employers and other agents of capitalism are identified as the enemy of women who must be punished in order that they change their crudely exploitative ways or else be driven out of business. This is not to say the role of government in fostering the interests of women is not also fundamental in a more market driven economy. It is just that the analytical tools employed and the nature of social policy outcomes are very different.

In my address this evening, I wish to make the case for the importance of an economically pragmatic approach to women's policy – both because it is therefore more likely to be incorporated into mainstream public policy and because without a rigorous gender perspective, public policy will be the poorer. This applies especially to policies for national prosperity. It is also my view that population policy, never defined, never debated but never far from the heart of mainstream public policy, is also strongly affected by our approach to gender issues.

So first, what is this post industrial society in which we live?

Post industrial society is a term that is enjoying great popularity and an equal degree of flexibility as to its meaning. In its broadest sense, I am referring to a world with increasingly linked international economies, rapid transfer of economic information, footloose global capital, a declining industrial sector in OECD countries along with the increasing importance of the tertiary sector, by which I mean more knowledge intensive and service industries.

At the individual level, the post-industrial society means greater uncertainty about work, declining demand for many traditional skills and simultaneous expansion in the demand for new ones. In particular that means a movement away from physical strength based skills, where males enjoy a comparative advantage, to brain based skills which tend

to be gender neutral, though not identical. It also means new ways of working – eg. greater work place flexibility – which enable women to have greater access to the labour market than previously.

Next, take training in this post industrial era. The idea of training in a single occupation in order to provide a lifetime of full-time employment is rapidly becoming anachronistic. This is not unexpected or shocking. Since we are now likely to live into our eighties and nineties, and still be useful members of society, career changes over the life cycle are an inevitable outcome of both this greater longevity and an increased rate of technological change. Consequently there has to be much greater emphasis on adaptability through lifetime learning and greater flexibility in employment, such as through contract and part-time work.

None of this is new, but it might mean we treat gender issues differently.

These structural changes in the economy have not only led to a different relationship between work and society, but have also made possible a different relationship between men and women. The concept of the single male breadwinner household as a common option for example, is looking harder and harder to sustain. In fact, the concept of this traditional breadwinner supporting a wife at home is a comparatively recent and brief orthodoxy.

For most of history, societies could ill afford to have half the population solely or largely engaged in housekeeping and child rearing. Whether in the fields or at the loom, the efforts of women were indispensable to the economy.

The wealth and productivity required to allow the growth of the middle class and the single male breadwinner household has only been achieved in very recent times indeed. Perhaps the most remarkable thing is the speed at which it became a motif for developed Western societies in this century. With it has come the firm entrenchment of the specialisation of labour by gender between the household and paid employment, with pauses for acute labour shortages such as during World War II.

The reasons for the sexual specialisation of labour can be explained by reference to the concept of human capital. Human capital analysis starts with the assumption that individuals decide on their education and training and other additions to knowledge by weighing the benefits and the costs. In industrial society, when increases in productivity allowed the development of a single earner household, initially for the upper classes, it was a small step to institutionalise a gender division of labour. It reached its zenith in the immediate period after World War Two.

Using the human capital theory as employed by Becker², you can draw the conclusion that the difficulties facing women looking to

participate in paid employment, the likelihood of low pay and the expectation that they would leave employment to bear and raise children has made specialisation of labour by gender a practical decision. It made little sense to invest a great deal in education and training for such a modest return.

This division of labour was reinforced and entrenched in wage structures and social welfare systems. This is evident in the concept of the "family wage" in the Harvester Judgement and welfare provisions predicated on the basis of dependency by women on men through the single male breadwinner model of society.

As industrialisation in the West has proceeded, the cost of labour relative to capital has increased substantially. The large gains in productivity through capital replacement of labour gradually led to the relative cost of goods decreasing compared to the cost of labour. In this sense, labour as a commodity (particularly skilled labour) became more valuable and overall tended to be compensated more generously.

The acceleration of this process inevitably weakens the argument for the specialisation of labour within households by gender. The benefits of specialisation and sexual division of labour between couples in households has declined as a result of these changes.

Time spent on activities such as child care becomes relatively more expensive when countries become more productive. The higher value of time raises the cost of children and among other things, reduces the demand for large families. Additionally, the greater importance of education causes parents to invest more in their children's skills, adding to the costs of large families.

The labour shortages of the booming 1960s in many Western countries created increasing opportunities for women's employment and began to place increasing pressure on the concept of the single male breadwinner family. Growth in employment that did not rely on physical strength, typical of most tertiary industries, increased the potential for women to participate in the workforce. At the same time, the widespread introduction of the contraceptive pill in the 1960s meant this increased potential access for women to employment was realisable. It made it possible for women, for the first time in history, to control their fertility and respond to the new opportunities offered by post industrialisation, as they have evolved over the past 30 years.

However, post industrialisation doesn't mean post irrational or post prejudice. It doesn't mean that gender stereotyping disappears overnight. We are not in some new golden age of reasonable human kind. Terrible things still happen to women; domestic violence is one of these.

The consequences of stereotyped beliefs in gender roles can also be self-fulfilling, despite current realities, and continue the under investment in female education, training and work skills, especially at

the mature age end of the market. Even as women have entered the labour market in greater numbers, they have traditionally been far more likely than men to work part-time and intermittently partly because they usually withdrew from the labour force for a while after having children. As a result they have had fewer incentives to invest in their education and training. Arguably, despite the move to knowledge based industry, women are still more marginally attached than men to the labour market....as is demonstrated by the much lower female participation rates.

A comparison of the approaches of Europe, Scandinavia and the US has some gender lessons for Australia.

The dominant approach in continental Europe to the problem of unemployment in recent times has been to manage labour market problems via supply reductions such as early retirement, discouragement of female participation and hours reductions. The Scandinavian approach on the other hand has been to manage workers dislocated by structural change through training and job creation while the United States has chosen the neo-classically favoured approach of wage flexibility.

The persistent unemployment rates associated with "Eurosclerosis" have been avoided in the United States, although some would argue at another sort of social cost. The growth of the service sector, so vital as a source of employment for low skilled or dislocated workers in the US, has been sluggish in Europe. European growth rates between the mid 1970s to the mid 1980s have been less than half the US rate.

Europe's limited capacity to take up its unemployed with service sector work is commonly attributed to the deadening effects of a heavily structured labour market with high fixed costs and limited flexibility. Most service industry jobs for example are labour intensive, low productivity. As such, job creation in these industries is limited if their wages are also closely aligned with rates in the high productivity industries. If the concept of a "family wage" is to be maintained by organised labour, then low wage service industry markets cannot be developed. This in turn reinforces the "insider-outsider" problem associated with rigid labour markets. In the case of continental Europe, many of the outsiders are female.

Under these conditions outsiders can still participate in employment but often only in the informal sector and black economy. Some estimates put the number of female outworkers in Italy at around two million³ – and women also dominate in Australia's outworker group.

As global competition increasingly frustrates the efforts of national governments to insulate themselves from the winds of economic change, the labour market exclusion and segregation of women can also expect to come under more pressure than any

government fiat can exert.

Taking the human capital argument a little further, half of the human potential in Australia is female. Meritocracy achieved through equal opportunities and remuneration would logically be the most effective means of ensuring Australia's continuing competitiveness. As economist Gary Becker has observed¹, discrimination is a cost incurred by an economic actor to avoid entering into a contract with someone not of the desired sex or race. It is not only the victim, but the perpetrator of this distorted contract, who loses. In this case, that means the loser is Australia, and our survival on the world economic stage may well be at increased risk.

Look for a moment at the persistent gap remaining between the earnings of men and women. A common explanation for much of this gap is the undervaluing of women's paid work. This may be so, but it might also be the still modest contribution of men to household tasks and caring. The relatively greater responsibility for these tasks borne by women may discourage many of them from taking jobs with long or inflexible hours, irregular shift work or travel.

To liberate womankind, you must also liberate your sons.

It stands to reason, however, in this increasingly knowledge based rather than muscle based economy, with its increasing need for flexibility in employment, that the labour market activities of men and women will slowly begin to resemble each other. Women are increasingly involved in occupations that were until recently, the sole preserve of men. They are also obtaining tertiary qualifications at rates that equal men and are anxious to apply these skills.

Men on the other hand are likely to be moving in and out of the workforce for events such as re-skilling, rather than remain in life-long careers. As the nation faces up to international competition, we will have no choice but to attract and keep the best workforce – regardless of its gender composition – in order to secure increased standards of living for the broader Australian community. To do otherwise would be to unnecessarily incur a dead weight loss.

With this in mind, the arguments for the division of labour on the grounds of gender look more and more illogical. It seems probable that the earnings gap will continue to shrink. There is certainly more and more evidence of change emerging in the patterns of the division of labour between men and women. An account in the *Sydney Morning Herald* recently, chronicles the growing number of "housefathers" in the US. Many of these families are likely to be making decisions about caring responsibilities based on their respective salaries and employment prospects rather than gender. The article also noted the efforts of Hollywood, sensing a big shift in society, hopping on the bandwagon and hurriedly developing television shows featuring single fathers. When housefathers become popularised in prime time, it is a

fairly good indication that the orthodoxy has shifted pretty far.

I said at the outset I would address the relationship between women and population policy. Again it requires a fresh look at women in the labour market.

Women's labour force participation has been increasing since WWII, with the most significant growth occurring from the 1960s, although noticeably slowing in Australia since around 1987. It increased from seven per cent in 1947 to 36 per cent in 1966. It is currently around 53 per cent. A growing number of women did not wish to see their future financial security made solely dependent upon a husband and, for the first time, had the opportunity to enter paid employment and so fulfil that wish. A recent longitudinal study found that only four per cent of young women (18-22 years) surveyed wanted to be in unpaid work in the home at the age of 35.⁵

The desire for financial independence has been made more pressing by the increased emphasis on self-provision in retirement through superannuation. The compounding financial consequences of gender discrimination are never so apparent as they are in retirement incomes. The federal government's determination to address this issue of superannuation and divorce recognises this fact.

The consequences of having more women in the workforce for the nation's birth rate, although intuitively appearing to be obvious, are a little more complicated as we unpack them. In the past 30 years, post pill, the Western birth rate has declined for many other reasons. Take increasing divorce rates with the advent of no fault divorce for instance.

Becker for example, postulates that as divorce becomes more likely fewer women will be prepared to bear children – because child care is more difficult when a marriage dissolves. Career advancement for the principle custodial parent is also affected.

There is evidence dating from 1977⁶ that couples who anticipate a high likelihood of divorce have fewer children. Becker argues that the labour force participation of women increases when divorce rates rise because it is a protection against financial adversity following separation. In addition to the divorce factor, many couples have shared material goals that required a second income to realise. Since the 1970s the single largest source of rising family income in Australia has not been real wage increases, but the second wage.

That average family size would fall as societies became more prosperous is no great surprise. Malthus' belief that fertility would rise and fall as incomes increased and decreased was quickly contradicted by the large decline in birth rates as Western countries industrialised during the late 19th and early 20th centuries. The failure of Malthus' model led economists to accept family size as being influenced by many factors outside economic analysis. Thus population growth was and is regarded as an exogenous element in neoclassical models. As we can all

demonstrate, however, families do employ at least some economic reasoning when deciding on their family's size.

Certainly how a society responds to the increasing aspirations of women seeking to participate in the workforce can have dramatic effects on population growth. A recent study by Professor Peter McDonald⁷ from the ANU is most enlightening. Professor McDonald compares the different social policies of developed countries and suggests a link with national birth rates. From the 1960s, for example, European countries such as Germany, Belgium and France elected to use "guest workers" to deal with labour shortages rather than actively support greater labour force participation by women. As a result, women's labour force participation lagged well behind the Scandinavian states until the 1980s – and I might add in passing that each of those three countries has serious social complications arising from their guest worker policies. In the mean time, much of continental Europe's labour force is still very male and still quite protected.

Those differences in the policy responses of Western countries to facilitating or hindering the participation of women in the labour force persist today. A number of commentators have noted the influence of conservative social values in the design of social welfare provision.

Countries such as Italy, Germany and France have tended to favour "traditional" family structures and this tends to be reflected in their policies in taxation, family services and industrial relations. It also tends to be expressed by an emphasis on cash transfer payments rather than to service provision in social welfare systems.

For example, a third of Scandinavian non-health social welfare is dedicated to servicing family needs through the provision of services. In continental European nations, it is typically one tenth.

This has tended to reinforce the male single breadwinner model and supported the role of wives as providers of care. Public child care coverage is below 5 per cent in Germany, the Netherlands and Italy. The care of older generations is similarly divided, with about 40 per cent of elderly parents living with children in Italy and Spain but only 10 per cent in Scandinavia and 15 per cent in the US.

Many in Australia would consider the in-family care of our elderly or of our children to be desirable social goals. Certainly that is the world in which most of us grew up. But the greying of Australia makes family based care increasingly problematic, and, if Peter McDonald is correct, an absence of family friendly work policy has other consequences.

It goes back to where I began this evening, to the advent of reliable contraception which, for the first time, has enabled women to choose between having a family and pursuing a career. It is an historic confrontation of wants. Over and over again, Australian statistics demonstrate that most women want to have both, but the fact is they

can also choose to have one without the other.

Resolving the conflict between forming a family and pursuing career aspirations is, to a large degree, facilitated or frustrated by the social institutions and policies each society puts in place.

The challenge for modern public policy is obvious – if nations wish to have a sustaining population, a sustaining country, then they either import migrant workers in enormous numbers or provide their existing families with a range of measures for comfortably combining children and employment. A third option of course is to ban contraception, but that is most unlikely.

As I've already observed, those countries ascribing to the more traditional family values have developed systems that arguably tend to discourage the employment of mothers. Perversely, these are the same countries suffering the lowest fertility rates. Fertility rates in Continental Europe have slumped to below 1.5. Italy's fertility rate is the lowest in the world at 1.3, followed by Spain and Germany. Conversely, the fertility rates of countries that have chosen to facilitate the labour market participation of women have remained much higher. Sweden has the highest fertility rate in Europe.

A reasonable interpretation of these events is that the participation of women in the workforce in developed countries is inevitable and that the consequences of government seeking to frustrate those ambitions is a society that is unable even to replace itself. Force women to choose between a job and a dirty nappy, and many seem to prefer the job.

These observations are timely as increasingly policy makers focus on the huge demographic shifts occurring in Australia, as in other Western societies. Women's participation and fertility rates are significant issues if one contemplates the increasingly pressing issue of supporting an aging population and the need to maintain a reasonable balance between the working age and remainder of the population.

The intense competition of post industrialism pays little attention to issues of gender. Thank goodness. Like justice, global economics is blind. Capital flows rapidly to those economies offering stability, competitiveness and opportunity. It is, by its nature, exploitative, but works best when it is non discriminatory.

Those individual economies, however, which fail to address gender bias in their human capital policies, will inevitably do so at their peril. Just as industry protectionism supports but also harms the economy and all of us in it, so too, does gender protectionism.

The implications of pursuing policies which seek to stifle or frustrate the participation of women in society are many. Ignored, they manifest themselves in shrinking nations, lower standards of living and inevitably social stress borne of frustration.

Since the role of good femocrats is ultimately to influence

government policy, our task can only be made easier if we make this case – that the welfare of women and the welfare of society as a whole are one and the same and that the costs of discrimination, both psychic and economic, are borne by all of us. The case for women is then unanswerable, as it should be.

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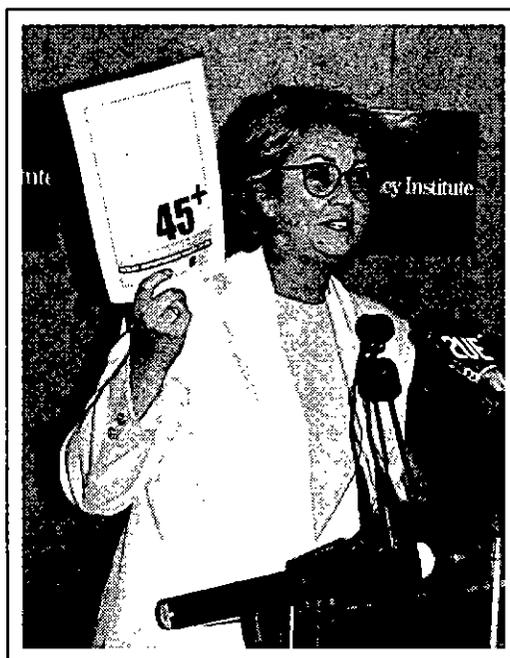


Photo - David Karonidis

Cheryl Kernot

Cheryl Kernot was elected to federal parliament as a senator for Queensland in 1990 and became leader of the Australian Democrats in April 1994. In a controversial move in 1997, Cheryl Kernot resigned from the Democrats to join the Australian Labor Party. Shortly after, she was preselected as the ALP's candidate for Dickson. On Wednesday 22 April 1998, Cheryl Kernot gave her first major address as an ALP candidate to The Sydney Institute.

LOST WORKFORCE:

AUSTRALIANS OVER 45 AND THE CHANGING FACE OF WORK

Cheryl Kernot

"No country, however rich, can afford the waste of its human resources. Demoralisation caused by vast unemployment is our greatest extravagance. Morally, it is the greatest menace to our social order."

Those were the words of Franklin Delano Roosevelt and those are the words that appear on his memorial in Washington. In an ideal world, those words would be tattooed across the foreheads of every politician, manager, bureaucrat and corporate head in the country. Roosevelt's message is essentially one about the right of all to enjoy the dignity of work – and the damage that follows from the failure to recognise and support that right.

In these times of great global and technological change, of restructuring and downsizing, of using the arguments of greater efficiency and productivity to sack and retrench workers, it is a message that seems to be growing fainter and fainter, by the day.

After twelve weeks of talking with Australians over 45 who have been affected by workplace and workforce change, one thing I can say with absolute certainty is that it is a message that needs to be restored to the centre of Australian political life. That is the essence of my report to Labor on the 45-plus generation.

First, that we must acknowledge the growing phenomenon of the displacement of Australians over 45 – in fact, Australians as young as 40 – from the workforce. We must acknowledge that means 20 working years and 20 income years lost.

Secondly, that we must as a society recognise that Australians over 45 – like all other Australians – have the right to the dignity of work and the right to economic security and employment opportunity.

Thirdly, that governments that ignore, undermine or trample on that right are not just a menace to our social order, as Roosevelt said, but a threat to the long-term economic and social well-being of the nation.

Since Kim Beazley first asked me – at Labor's National

Conference earlier this year – to look at mature-age unemployment, there has been no shortage of journalists and commentators keen to point out that Australians over 45 have enjoyed the "good life". As one academic pointed out this week, this is the age group that enjoyed free university education and subsidised health coverage.

There seems to be a view – coming from those with good jobs and good salaries, I note – that having been part of a generation that enjoyed these benefits, it's just tough luck if you find yourself on the employment scrapheap in your late 40s or 50s. I think this is an uninformed view of what's really happening. And I think we should all remember that this is the generation for whom unemployment was not really an issue and they have been surprised by the pace of change, having assumed that being a loyal and stable worker was the way to secure long-term employment and build a career. The facts are that many of them have worked for years in low-paid or casual jobs. Many don't have much in the way of assets or savings. Many are struggling to pay mortgages. Many are still supporting their children through high school, tertiary education or even primary school. As services to the elderly are wound back, a lot of older workers find themselves financially responsible for frail or dependent parents who are in their 70s and 80s. The choice of jobs they had may have been more limited than it is today, but there was an expectation that once you'd made your choice, you would build your career and make your employment commitment in that particular industry or occupation. That is no longer the case. As Peter Robinson pointed out this week in *The Sun Herald*, "today, even in the military or the public service, no-one is quite sure what a career is any more. The fact is that knowledge is the career, not the employer".

That is a dramatic shift in job security – and it is a shift which many workers in their 40s and 50s are struggling to accept and adapt to.

The underlying premise of this project is that it is not in this nation's short or long-term interests to hang those workers out to dry and let them struggle on alone. Government and employers, in partnership with unions, have a responsibility to find ways to address the growing sense of job insecurity that threatens to demoralise and divide this country. Kim Beazley asked me to look specifically at what a Labor government could do to help workers over 45, workers whom he described at the National Conference as having "borne the brunt of the impact of globalisation on our economy".

Certainly, this project focuses on the role of government – but there is also a question here about what constitutes a good corporate citizen as well. Why should companies be able to dump employees in the name of restructuring without at least meeting some basic obligations to help those workers with retraining or finding other work?

Why should our laws allow companies to have no regard to their responsibilities towards their employees' entitlements when they become insolvent?

Is Australian business locked into a short-term and unimaginative mindset that renders it incapable of dealing with global change other than through downsizing and retrenchments? After all, even the guru of downsizing Stephen S Roach has said downsizing hasn't worked, that it's a recipe for industrial extinction and that future success lies in investing in human capital. Why aren't we much more critical of the deficiencies in corporate management and government in Australia that have led to these outcomes?

There are four major trends driving change in the way we work. The first of these is the decline in full-time employment. The second is the growing casualisation of the Australian workforce to the point where we now have one of the highest rates of part-time employment in the OECD. The third trend is the growing polarisation in the workforce between what's been called the "overworked" and the "underworked" or out-of-work. And the fourth trend is the steady increase in the overall number of those who are out of work, working part-time but wanting to work more hours and those who have given up the search for work.

These trends have led to massive change in Australian working life – with enormous implications for Australian workers. One of the most significant changes has been the overall decline in the male employment base, with the proportion of working-age men in full-time jobs falling from around 80 per cent in the 1970s to less than 60 per cent in 1996. Teenagers and older men have borne the brunt of that decline.

Much of this decline can be attributed to structural change in industries traditionally employing men and to the large reduction in employment in manufacturing. However, the fall-out from corporate and public sector restructuring and the flattening of middle management structures has also affected older male white collar workers. The fact is that older men are not moving into the growth areas where women are finding employment – areas such as retail, hospitality, child care, data processing and business support services.

That seems to be due to a combination of traditional community attitudes about which gender should do what work, men's personal reluctance to undertake certain kinds of work, the absence of policies designed to retrain men for work in areas of employment demand and many older men's difficulty in seeing part-time work as a viable employment option. Some of these problems may diminish as a younger generation of men come through – men without such a strong attachment to full time work and perhaps with more of a willingness to mix their work and family responsibilities. But for the moment, positive

experiences of retrenchment for men are largely confined to managerial and professional workers – those with the resources to finance a career shift (into small business, for example) or with the income to enjoy moving away from full-time work to a mix of part-time or contract work, perhaps some voluntary work and increased leisure time. For men without those resources and without that financial flexibility, facing up to unemployment in your 40s and 50s can be a very bleak, bitter and frightening experience.

Another significant development has been the growth in what's been called "precarious" employment, where a great many employees now face particular financial difficulties as a consequence of having no or little job security. These workers cannot even console themselves with the belief that casual employment will eventually lead to full-time work. Recent research by the ABS shows the vast majority of jobseekers shunting between casual jobs and unemployment with few prospects of gaining secure long term work. That's a pattern common to many workers in their 40s and 50s. That's reflected to some extent in the fact that the number of unemployed 45 to 64 year olds has risen at more than twice the rate of unemployment in general. 171,000 Australian workers over 45 are unemployed – and more than 60 per cent of them are men. A further 164,000 have part-time jobs, but want to work more hours.

Older unemployed workers are more likely to spend longer out of work: for example, 45-54 year olds are unemployed for an average of 79 weeks, compared to 42 weeks for those aged 20-24.

Now I want to be clear about this: this project does not in any way deny the devastation being wreaked at the other end of the workforce on young Australians in their teens and early twenties. After all, this is not a contest between older and younger workers as to who's getting the worst deal. Governments have responsibilities to both – in fact, to all. But I believe it is fair to say that the plight of mature-age workers has been largely overlooked. So many people who have spoken or written to me feel no-one has been listening to them and that no-one is addressing their concerns. They have an overwhelming sense of being left behind and forgotten: forgotten by governments, forgotten by employers and forgotten by the wider Australian community only to be denied anything in return when they most need it.

Without exception, the people I have met want to work. They are desperate to work.

While many are doing some voluntary work, they made it clear to me that they do not see volunteering as a solution to their problems. They can see how volunteering might become a "bridge" back into the workforce, but generally they do not see it as addressing their main problem: the need to work to generate sufficient income for themselves and their families.

In this regard, they are very different from a second group of Australians over 45 with whom I have also met in the past three months: those people who are happy to work part-time – or who consider themselves out of the workforce – and for whom volunteering forms an important and positive part of their lives. This second group gets great personal value out of volunteering. But they, too, complain of feeling forgotten – of feeling as though their contribution goes unrecognised and unsupported by governments.

I think we have forgotten many Australians of the 45-plus generation. I think we are guilty of standing by and letting a great many Australians in their 40s and 50s pay a high price for workforce and workplace change. And I think it's time we started recognising that it's not only about the personal cost to individuals and their families. There are the economic costs to industry of the loss of the skills and experience of older workers. After all, when did we stop valuing those qualities of stability, experience and responsibility? When did we decide that those qualities can't operate alongside the so-called youthful qualities of flexibility, speed and mobility?

We also have to recognise the costs to the wider community as a consequence of the psychological damage, poor health and family breakdown caused by unemployment. Community resources and services face additional strain. Then there is the price we may all pay for the inability of mature-age unemployed workers to adequately support and educate their children. And ultimately, of course, we all bear the financial and social costs of failing to ensure that as many of us as possible maintain our independence and income through to – and beyond – retirement. In short, we all share an interest in addressing the growing problem of mature-age unemployment and underemployment.

I do not pretend to have fully canvassed the causes of – or the possible solutions to – the problem. I am no expert in this field – others have researched and studied these issues in far greater depth and detail. But it is obvious that, along with other industrialised economies, we have a growing problem and one we must address promptly, with solutions that look beyond short-term political expediency to the longer term.

The workers who spoke to me as part of this project want to see government play a leading role in coming up with and delivering those solutions. They don't expect governments to do everything. But the core of the message they are delivering to Labor is that it's time for some effective public action from government to at least slow the displacement of older workers from the labour market. And that's really the starting point of this project: that governments have to do a better job of anticipating and managing change to ensure particular groups do not get left behind.

Nations – and communities – cannot afford that sort of polarisation. Social division might well be something John Howard

thrives on – something he might think is going to win him the next election – but it is not in the long-term interests of the nation.

Governments have a responsibility to be unifiers, not dividers. They have a responsibility to build partnerships, not animosity and enmity. They cannot sit back and watch as those fortunate enough to take advantage of global and technological change benefit and prosper, while those less fortunate drift into long-term unemployment, alienation and poverty.

Developing that sort of role does not require governments to be dogmatically anti-market or determinedly pro-public intervention. It simply requires a recognition that the markets are not always perfect, that they can, and do, generate inequalities, and that government can – and should – act to prevent the worst excesses of the market. For example, while the labour market might see benefit in dumping older employees at 45 or 55, governments have an obligation to look at the longer-term social and economic implications of such a trend and act positively to deal with it. It's just not acceptable to say "oh well, the market doesn't want older workers, so that's the end of that".

That leads to the second basic premise of my report: that governments must put addressing unemployment at the top of their list of priorities.

It is not good enough to boast – as John Howard and Peter Costello have done – of "having the economic fundamentals in place" and then sitting back and putting your faith in the self-regulating properties of the market, while more than 8 per cent of the Australian labour force remains unemployed.

Leaving aside the fact that John Howard and Peter Costello have actually slowed economic growth, governments clearly cannot rely exclusively on growth to solve unemployment. Such an approach is no longer good enough. There is plenty of evidence to suggest that governments can make a difference through a combination of macroeconomic policy, industry policy, education policy, labour market programs and so on.

There are other responsibilities governments must accept as starting points in addressing mature-age unemployment. Governments must play a leading role in finding solutions to the growing problem of the unequal distribution of working hours. Ultimately, the success of such solutions will be driven by a recognition of mutual benefit on the part of employers and employees, but that should not stop governments from leading the way in putting these ideas out in the public arena. Governments must also develop policies that specifically address the needs of older Australian workers. Governments also need to acknowledge the contribution older Australians are making through volunteering in a much more practical and positive way than has been the case. Finally, governments must recognise that local communities

are not just economic marketplaces, but societies - and that each community has economic, social and infrastructure needs that require support by government.

I have been mainly concerned with specifically targeted responses. I have endeavoured to come up with a set of proposals for action a national government can take to prevent further displacement of older workers from the Australian workforce. I have tried to craft a set of proposals which do not throw money indiscriminately at the problem, but which attempt to build long-term attitudinal and structural changes. I have made my report to Kim Beazley and he has agreed, in consultation with front bench colleagues, to take up immediately a number of proposals for action in a way that enables me to make a number of announcements tonight.

Fairly obviously, the full details and costs of these proposals will be announced closer to the election, but their acceptance in principle is a very clear demonstration of Labor's willingness to listen and to address the concerns of older workers. I can announce that Labor will establish a specific job security fund to foster innovative strategies for labour adjustment, re-skilling and work reorganisation for workers over 45 affected by industry restructuring. The fund would have three main purposes: to encourage enterprises to develop programs and workplace arrangements that enable them to retain, rather than retrench, workers; to provide target training and skills updating for workers prior to retrenchment; and to fund combinations of measures designed to return retrenched employees to the workforce as soon as possible.

So many older workers and organisations said to me that one of the main problems was getting skills auditing and retraining to workers as soon as possible, preferably prior to them actually being retrenched, but certainly as soon as possible afterwards. The job security fund is one mechanism for doing that, although I have also proposed that Labor explore with employers the options for a cooperative approach to assisting employees prior to the point of retrenchment so that their job readiness is enhanced.

Labor will also legislate for the security of employees' accumulated legal entitlements when their employer becomes insolvent. I have recommended the approach adopted by Janice Crosio in her private members bill, which sets up an insurance model under which employers are required to insure against the risk of having insufficient assets to meet their employees' entitlements. Labor does not believe governments should continue to accept an increasing trend where workers are left - either inadvertently or deliberately - without any means of obtaining what is owed to them.

The list so far includes: 160 workers from the Woodlawn zinc and copper mine in Goulburn who are owed roughly \$6 million in entitlements; 270 miners from the failed CSA mine in Cobar who are

owed \$6 million; 250 meatworkers in Grafton who are owed more than \$3 million; 157 nurses in the Rockhampton and Yeppoon who are owed \$1.4 million; 2,000 workers formerly employed by the Sizzler chain of restaurants who are owed \$2 million; and most recently the 1400 waterside workers sacked by Patricks. The loss of these entitlements – millions of dollars worth – has not just affected individual workers, it has also had a devastating effect on regional centres and towns already struggling to cope with high levels of unemployment.

Labor will reduce the maximum waiting period for unemployment benefits under the liquid assets test. Under the Howard Government, the waiting period for unemployment benefits has been increased to 13 weeks if a person has more than \$2,500 in readily accessible assets – \$5,000 for a couple. Many older workers said to me that this particular measure has caused enormous hardship and frustration, especially for families who have set aside some small savings for their children's education. A Labor government will also reverse the Howard Government's decision to count superannuation assets as part of the means test for unemployment benefits. This measure has been seen – quite rightly – as grossly unfair and one which will force many older workers into premature retirement.

Both these decisions by the Howard Government were driven by short-term Budget bottom lines and both are totally counter productive to the longer-term need to build retirement savings.

I have suggested that Labor also consider allocating a specific proportion of its proposed Learning Security Accounts, when that proposal is further developed, to unemployed workers over 45 for the purposes of job re-training and skills upgrading. If knowledge is the new career, then I think we really have to look much more closely at the issue of training and life-long learning to ensure that workers do not become alienated from the workforce through their skills and knowledge not keeping pace with change. Surely this is a perfect opportunity to build private public partnerships for mutual benefit.

There is little doubt that employer attitudes remain one of the biggest barriers to the employment of workers over 45; for that reason, Labor will undertake – in conjunction with industry and employer organisations – an *Experience Pays* campaign designed to educate employers of the economic value to business of recruiting, retaining and retraining employees over 45. Labor will also establish as a priority an inquiry into the distribution of working hours and the quality of working life in Australia as part of taking responsibility as a government to play a leading role in ensuring Australia copes with global and workforce change in ways which benefit the entire community. Labor will also set up a mature age employment unit with DEETYA with a brief to train and recruit Centrelink workers in the delivery of services

to people over 45 and to advise the government on specific initiatives and innovative programs to tackle mature-age unemployment.

Finally, I have suggested a number of proposals in relation to volunteering.

In the past few months, many people have said to me – in light of the collapse of full-time employment – that we should be exploring ways in which we can mix paid work, voluntary work and education to develop more healthy, more fulfilling lives. While I think we should be looking at opportunities in that direction, I think it is important to appreciate that such a shift in lifestyle remains possible – and welcome – primarily for those who do not need the income generated from full-time employment.

However, voluntary work in one form or another is an important part of the lives of many Australians over 45 and it is an important element in building and maintaining strong and vital communities. Government recognition of volunteering sends a message that governments understand and appreciate the social and economic value of cooperation and of fostering a sense of public spirit and citizenship. My report recommends that Labor in government honour its obligation to support and recognise the contribution volunteers are making to the community, with an initial focus on Australians over 45.

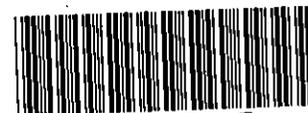
I can announce that Labor will establish a national volunteering program with the aim of setting a national agenda in relation to recognising and supporting volunteering. We will establish a Volunteers Bureau within the Department of Prime Minister and Cabinet with specific responsibility for advising on and coordinating national policies and programs dealing with volunteering. That is an important – and new – signal of recognition for volunteering at the highest level of government and it signals Labor's intention to develop and pursue a national policy on volunteering to promote and encourage community participation. Labor will also continue and substantially expand its commitment to the Volunteer Management Program, and our national volunteering program will also include the setting up of two specific programs designed for Australians over 45.

The first will involve community organisations in developing partnerships between younger people and older unemployed or retired workers, and the second will be a business mentoring program, which will aim to directly assist older volunteers become mentors to young people in small business.

These measures will represent the first moves by an Australian government to formally recognise at a national level the contribution of volunteers and to provide mechanisms for a formal relationship between the voluntary sector and the national government. Labor's willingness to act in these key areas signals an important development in Australian politics. It signals that Labor has listened to Australians

over 45 and acknowledged the growing problem of mature-age unemployment and the consequences it has for long term policy. It signals that Labor understands the need for both short-term and long-term planning and that it wants to be a government that is willing and prepared to act to halt the growing polarisation within the Australian workforce.

It signals Labor's determination to be a government that does not leave more and more Australians over 45 on the employment scrapheap.



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Photo - David Karamdis

Geoff Carmody

On Wednesday 20 May 1998 Geoff Carmody, Access Economics, presented his Tax Reform Paper to The Sydney Institute. The Paper was the culmination of a specially commissioned project by The Sydney Institute. Launching the Paper, Institute Chairman Meredith Hellicar explained the process: "We wanted lively debates, an informed discussion paper, and a greater community understanding of the issues. To this end we invited one of Australia's leading tax experts, Geoff Carmody, to assist us...to write a draft paper outlining the key issues as he saw them. We then invited a range of people - including business leaders, representatives of community groups and industry associations, academics, public servants and politicians - to attend a seminar to discuss this paper. We held three seminars - in Sydney, Canberra and Melbourne - in March 1998, with some 40 participants. In the light of the discussion at these seminars, and in the wake of the Federal Government's 1998 Budget, Geoff Carmody revised and finalised his paper."

The Sydney Institute's Tax Reform Paper was sponsored by Bankers Trust Australia and launched with supporting comments by the Institute's Deputy Chairman Rob Ferguson (Managing Director, Bankers Trust Australia).

**AUSTRALIA'S TAXATION "SYSTEM":
FROM POLITICAL FOOTBALL
TO FISCAL FOUNDATION?**

- GEOFF CARMODY

**PRINTED AS A SPECIAL SUPPLEMENT
TO THE SYDNEY PAPERS**

JUNE 1998

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SUMMARY

Australia's tax system has been treated like a political football. It has been kicked around by politicians and interest groups struggling to secure or close off this or that perceived advantage or loophole, with broad-based disagreement about what, precisely, should be done.

But Australia's tax system *should* be regarded as an essential part of the country's social infrastructure. Its main job is to raise revenue effectively to finance government activity.

Unfortunately, it is being asked to do too many other things as well, and as a result it is inefficient, unfair and increasingly complex. It is failing to raise revenue effectively.

Tax Design Principles

Australia's tax system should be efficient, fair, and simple to operate. In practice, a balance must be struck between these criteria, because to some extent they are in conflict. One practical compromise for an effective revenue-raising system requires:

- *comprehensive* tax bases, to which
- *uniform* tax rates, as far as possible, apply.

Australia's Present Tax System: How Does It Stack Up?

Australia's tax system pretty comprehensively and uniformly fails these broad base/uniform rate rules:

- the indirect tax system is a motley collection of narrowly-based taxes, including wholesale sales tax (WST), excises, payroll tax, financial institutions duties, stamp duties, etc., to which often highly non-uniform tax rate structures apply
- personal income tax burdens have increased inexorably, driven by "tax bracket creep" as inflation forces taxpayers into higher taxable income levels
- the tax treatment of different forms of saving is highly non-uniform, often unfair and usually very complicated
- the increasingly complex and bizarre tax treatment of superannuation is an absolute disgrace
- the taxation of wealth is also non-uniform, with property taxation the main vehicle
- the interface between the income tax system and the social welfare system is a complex morass of high effective marginal tax rates. It is

the direct cause of some of the most distorting and unfair features of Australia's tax system

- business taxation is confused: a few companies do not have to pay income tax at all, when direct competitors do; the misalignment of the company tax and top personal tax rates opens up avenues for tax avoidance, and generates complex attempts to limit their use; there are calls to extend the partial "double income taxation" of companies to other business vehicles; dividend imputation is incomplete
- fringe benefits tax (FBT) is a hated tax and a compliance nightmare.

The "system" needs major reform.

Australia's Recent Tax Reform History

Australia's recent tax reform history has not been encouraging:

- in 1985, the then Labor Government's preferred "Option C" package was rejected
- in 1993, the Coalition Opposition's *Fightback!* package did not produce an election win.

A major casualty in both cases was a proposal to introduce a broad-based, uniform-rate consumption tax, financing, amongst other things, a major part of proposed income tax cuts.

Lessons From Recent Tax Reform History

There are at least four key lessons from recent history:

- revenue-neutral tax reform is harder to sell than revenue-negative tax reform
- shifting revenue burdens from tax on income to tax on consumption – the so-called "tax mix switch" – is a bad idea
- a tax reform package requiring very complex compensation just to leave most people no worse off will invite suspicion and distrust – at best
- locking governments or oppositions into precise tax reform packages before attempting to gain broad community support has not proven to be smart politics.

Tax Reform In Future: What Not To Do

Building on these lessons, there are several "dons" for any future

attempt at tax reform:

- *don't* propose a "tax mix switch": the politics are too difficult and the economic benefits, at best, are tiny
- *don't* support significant exclusions from any broad-based consumption tax (eg, food): that only raises the tax rate on other items, makes the system more complex, and delivers minuscule distributional benefits to low-income earners
- *don't* increase the double-taxation of business income by extending the current tax treatment of companies to trusts, partnerships, etc.
- *don't* propose measures that will introduce new disincentive traps, such as the proposal to abolish the tax-free threshold and replace it with a social welfare benefit targeted to low-income groups.

Tax Reform In Future: Some Proposals Worth Pursuing

The following are examples of proposals that promote the broad base/uniform rate criteria, on less distorting tax bases:

- a comprehensive near-New Zealand-style goods and services tax (GST) to which a uniform rate of no more than 10% applies, with the revenue used to finance abolition of wholesale sales tax and payroll tax (under a deal with the States/Territories on revenue-sharing) and a reduction in petroleum product excise
- real income tax cuts, financed primarily by use of some of the expected Budget surplus, revenue from better compliance with the tax system following the introduction of the GST, and possibly from other sources as well
- after these cuts have been delivered, preservation of their real value through indexation of income tax brackets to inflation
- sorting out the tax treatment of saving and superannuation essentially by moving towards more consistent tax treatment, based on an *expenditure tax* benchmark. (An expenditure tax is like an income tax except that any income saved is excluded from taxation until it is spent)
- identifying and then reducing or, where possible, removing, disincentive or "poverty" traps arising from the interaction of the income tax system and the social security system
- improving the company tax system by introducing genuinely *full* dividend imputation, by aligning the company tax rate and the top personal tax rate, and by folding the fringe benefits tax (FBT) into the personal/PAYE system, with simpler valuation rules for employee benefits.

Broad Conclusions

This paper attempts to present three messages.

The first is that good tax systems rely on comprehensive tax bases to which uniform tax rate structures apply. Australia does not have such a system and is suffering as a result. Tax reform should promote such a tax system.

The second message is that a core function of governments is to raise tax revenue effectively to finance their activities. The tax system should not be regarded as a political football. It is truly a central piece of Australia's social infrastructure, albeit at present in disrepair.

The third message is that successful tax reform is both overdue *and worth paying for*. Use of some of the expected Budget surplus to secure success in this endeavour is properly regarded as an investment in a system that will carry Australia through the 21st century.

Of course, another legitimate use of any surplus is to retire public debt and free-up outlays on public debt interest for other uses.

But opportunities to invest in a modern tax system come along only so often. Australia has already had two attempts in the last decade or so (as well as others earlier). A third failure would put back the cause probably for some considerable time.

Moreover, spending some of the expected Budget surplus is likely to prove a good investment in terms of a more efficient, fairer, more acceptable, and, overall, simpler tax system.

And in terms of tax revenue, this investment is likely to repay any down-payment several times over with revenue that will be needed to finance the needs of the ageing Australian population as we move towards the middle of the 21st century.

FULL PAPER

1. Putting Tax In Context

People Dislike Taxation, And Politicians Exploit That

Attitudes to taxation systems are inconsistent. Most normal people dislike paying tax. The best tax is one paid by somebody else. Politicians have a particular liking for taxes paid by non-voters. The services provided by governments, and financed out of taxation revenue, are often taken for granted, or criticised either as being inefficiently provided or, worse, not appropriate for governments to provide anyway. So, for many, taxes are more likely to be perceived as inflicting net individual economic pain rather than financing net social gain.

Australia's taxation system has become a political football. Embellishing or removing this or that part of its intricate and confused embroidery has become at least an annual, Budget-time, event. Opposing this or that proposal for tax system change is normal for at least one political party. Bipartisanship and reform of the tax system are strangers. The main winners from all the chopping and changing on taxation in Australia are accountants, tax advisers, the legal profession – and the printing industry.

And yet, if there *are* core functions of government (and there are), one of these, surely, is to establish and maintain an effective taxation system to finance government activities. The taxation system *should* be regarded as an indispensable part of Australia's social and economic infrastructure, and one which governments alone can provide.

In a "big picture" sense, an effective taxation system *should* attract bipartisan (or is it multipartisan?) support. Proponents of a larger role for governments and those advocating smaller governments *should* have one thing in common. Both *should* favour a tax system that raises *any* required revenue target effectively. Unless the required tax revenue is raised effectively, neither role for government is sustainable. But this perspective appears lost. When tax reform is on the agenda, as now, it becomes a rallying call for political disputation.

The Tax System Is Being Asked To Do Too Much

Everybody agrees Australia needs a more efficient, fairer and simpler tax system. There is also fairly wide agreement about the defects of the present system. But the precise meaning of the terms "efficient", "fair",

and "simple" – at least implicitly – may not be agreed. At least in part, that is because the tax system is being asked to do too much. For example:

- it is viewed as a key instrument for delivering social welfare benefits (even though its interaction with the social welfare system more generally is the direct cause of "poverty traps" – that is, massive and unfair disincentives to self-help)
- it is seen as an instrument for helping small business relative to big business (eg, the low-payroll exemption increasingly undermining states" payroll tax systems)
- it is used in an attempt to encourage businesses to locate operations in Australia, or one part of Australia rather than another (eg, tax exemptions given to new businesses locating in a particular State or Territory not available to similar businesses already operating there)
- it is viewed as essential for discouraging use of "bad" products (even though, in many cases, the demand for the products concerned is so insensitive to price that the tax is really a very efficient revenue-raiser rather than an effective agent for social change)
- it is viewed by some as an essential instrument for income redistribution via higher taxes on the rich (even though the rich are better placed legally to avoid tax, and do so)
- rather than being viewed as a general revenue measure, some taxes are "justified" on the grounds that they are hypothecated – earmarked – for a particular purpose (eg, the Medicare levy is supposed to be used to finance public health outlays)
- it is often viewed as a vehicle to grant concessions to particular interest groups (eg, the Diesel Fuel Rebate Scheme, the benefits of which overwhelmingly go to farmers and miners) even though the justification for these "concessions" often applies equally well to other industries or groups.

Spare a thought for those charged with administering Australia's taxation system. Getting agreement on an efficient, fair and simple system for raising general revenue is hard enough. But when the Australian Taxation Office (ATO) also has to accommodate additional, non-revenue raising objectives, imposed on it by government legislation, the task becomes almost impossible.

In "big picture" terms, we seem to have lost sight of the fact that the tax system has *one* task to perform effectively. It must raise the revenue needed to finance government activity. If that task is not carried out effectively, then *all* other objectives assigned to the tax system will be undermined.

The tax system will not be economically efficient, fair, or simple. The tax system will be neither stable nor acceptable to taxpayers. Considerable resources will be devoted to wasteful haggling over proposed changes to the tax system until it is fixed.

Apart From Raising Revenue, What Can Taxes Be Expected To Do?

In general, even the "best" tax systems do not raise revenue without affecting – distorting – the behaviour of taxpayers. The ideal, non-distorting tax is a theoretical dream. Even a personal lump-sum tax (a fixed dollar amount payable by each person regardless of income or wealth) can be distorting – unless emigration is banned. Besides, poll taxes in democracies can cause political difficulties, to say the least.

Some distortions caused by taxes are regarded as desirable. Taxing tobacco products gives some a warm inner glow (be they health industry professionals or treasuries, albeit for different reasons) even if the distortion to taxpayer behaviour is small. But many distortions are undesirable, and should be minimised. They involve inefficient use of Australia's scarce resources and loss of tax revenue. They can undermine government objectives too (eg, if Australian politicians are so keen on Australian manufactures, and exports thereof, why do we still have a tax distortion against manufactures, notably via our Wholesale Sales Tax?).

Taxes also have administrative and compliance costs. The ATO costs money to run. Taxpayers devote time and money to meeting the demands of the tax system as well.

These undesirable distortions and administrative/compliance costs cannot be removed completely. They can only be minimised by "good" tax system design.

2. Key Principles For A "Good" Tax System

An agreed set of principles is needed for any coherent discussion about taxation. Without a framework to guide the analysis, any discussion will be unfocussed and inconclusive. A "no-tax-in-my-backyard" conclusion would probably be the lowest common denominator, which is hardly useful if the revenue raising target exceeds zero!

Since everybody says we need an efficient, fair and simple tax system, (while not defining what these terms mean) we might as well develop our set of principles from this starting point. What is meant by the

terms "efficient", "fair" and "simple"?

2.1 Economic Efficiency

Economists say that an efficient tax is one that minimises the economic cost of distortions (changes in taxpayer behaviour) caused by the imposition of that tax.

Without getting into the jargon of welfare economics, the basic idea is roughly as follows. If tax A causes the taxpayer to alter behaviour by a smaller amount than tax B raising the same revenue, we might conclude that tax A is the more efficient. (It's more complicated than that, because efficiency losses, or so-called "deadweight" losses, involve *valuing* the magnitude of the behavioural change as well.)

A specific example might illustrate the idea more clearly. Suppose a given amount of taxation revenue was to be raised either by imposing a tax on tobacco products, or, alternatively, by taxing the sale of 5-star hotel room nights located within one kilometer of Circular Quay in Sydney (this example may be seen by some as a bit close to the bone!). Because demand for tobacco products is relatively price-insensitive (reflecting their addictive properties) we would expect to see only a small reduction in consumer demand in the tobacco tax case. In contrast, because 5-star hotel services are discretionary, and because there are numerous accommodation substitutes, we would expect to see a large reduction in consumer demand for the affected 5-star hotels as taxpayers substitute away from them to non-taxed alternatives.

The tobacco tax is likely to be economically more efficient (less distorting) than the selective hotel tax.

The more any tax system minimises the total value (cost) of changes in taxpayer behaviour caused by that system, the more economically efficient it becomes in raising tax revenue.

2.2 Fairness Or Equity

It is politically and socially impractical to design a tax system without regard for its fairness. Fairness or equity has two dimensions.

The first is *horizontal* equity, or similar tax treatment of people, businesses, products, etc., in similar situations. For example, if some milk products are subject to sales tax, then all milk products should be taxed at similar rates. (Actually, that's a bad example for Australia. There are *three* possible Wholesale Sales Tax rates on milk – zero, 12%

or 22% – depending on the percentages of flavouring/milk in the milk product, and/or whether the product is manufactured commercially or mixed at home!)

The second dimension is *vertical* equity, which basically means imposing a lighter percentage tax burden on poorer people than on richer people. For example, this principle would require people earning, say, \$13,500 a year to pay a smaller percentage of that in personal income tax than somebody earning, say, \$30,000 a year.

In addition, vertical equity would require the *marginal* income tax rate (ie, that applying to the last dollar of income) to be lower – or at worst no higher – for the person on \$13,500 than for the person on \$30,000. Actually this is a bad example for Australia too. Some people on \$13,500 may be in the income range where the Medicare levy starts to phase in. These people may face a marginal income tax rate of 40%, while people on \$19,000 and \$30,000 face marginal income tax rates (including Medicare levy) of 21.5% and 35.5%.

2.3 Simplicity

Simplicity is a straightforward concept. It includes *administrative* simplicity (minimising the ATO's costs of running the tax system) and ease of compliance with the tax system by taxpayers, minimising their time and money costs as well.

2.4 Balancing The Key Principles

To some extent but not completely, these principles are inconsistent. For example:

- a single-minded effort to ensure an economically efficient tax system might end up being inequitable (eg, in the vertical equity sense). Replacing personal income tax with a fixed lump-sum tax on all taxpayers, regardless of their income, might make the tax system less distorting, but at the expense of broad-based violation of the equity principle
- an alternative approach to efficiency, the so-called “optimal taxation” approach, might require a large number of different tax rates on individuals and products, depending upon their particular sensitivities to the imposition of tax. This might be both unfair (“necessities” might be taxed more than “luxuries”) and require an extremely complex tax structure, violating the simplicity principle
- pushing too far to promote equity may generate large efficiency costs. For example an extremely progressive personal income tax,

- with a top marginal rate of, say, 90%, is likely to induce large changes in taxpayer behaviour, with strong incentives to avoid and evade tax (including by taking up residence in another country)
- in many cases, simplicity may require rough "rules of thumb" to translate concepts that are hard to quantify into operational tax rules. These "rough justice" approximations undermine efficiency and equity, at least a little.

A *balancing* of the three principles is needed for a workable tax system. *There is no objective basis by which this balancing can be determined.* Some (eg, ACOSS, the churches) will assign a high weighting to equity principles (and there's *plenty* of scope for making Australia's tax system fairer). Others (eg, various business groups) will effectively assign a higher weighting to efficiency criteria. Others – especially the beneficiaries – will advocate retention of tax concessions or loopholes for obvious reasons even if their retention undermines the efficiency of the overall tax system.

So, even if people agree precisely on the meaning of efficiency, equity, and simplicity, there is still plenty of scope for argument about the appropriate *balance* between the three.

2.5 Other Tax System Objectives

Efficiency, equity and simplicity should be the determining principles for any good tax system.

Pursuit of other objectives that clearly violate these principles should be avoided. Introducing "loopholes" in the tax system to cater for particular interest groups is inherently distorting and unfair, and encourages "me too" lobbying for further changes to the system to benefit other groups, further undermining the revenue base and increasing the distortions in the system.

This does not rule out the use of taxation to try to distort behaviour in particular instances. Examples include the so-called "sin" taxes on tobacco, alcohol and gambling, which, if not particularly distorting, are at least economically efficient and can be justified as *attempts* to correct "market failures" where private behaviour is widely judged to be inappropriate.

2.6 Practical Design Features For A "Good" Tax System

Can agreement be reached on practical design features that deliver balance between efficiency, equity and simplicity? A balance *has* to be

struck – we need tax revenue.

For any given revenue target it might be possible to get fairly wide agreement on two very general tax design features that should dominate the tax system:

- the first is that the *tax base* (be it income, consumption, etc) should be as *comprehensive* as possible
- the second is that the *tax rate structure* applied to the tax base should be as *uniform* as possible.

What are the advantages of these design features?

- Broad tax bases allow low average tax rates for any given revenue target.
- Low uniform tax rates themselves are more efficient, implying lower distorting effects, both absolutely and as between different products/activities/investments.
- A broad tax base means fewer revenue leakages, implying a fairer (ie., more even-handed or horizontally equitable) and more efficient revenue-raising system.
- A broad tax base/uniform rate structure is simpler to administer and with which to comply: exemptions and multiple rates are minimised.

So a broad tax base/low uniform tax rate system scores highly in terms of simplicity, effective revenue-raising, and horizontal equity. It also scores highly in terms of *neutrality*. In general, such a tax system minimises any influence on consumer choice, investment vehicle for savings, etc. This is not to say that important distortions do not remain. But the low rate feature minimises even these.

Vertical equity still needs attention. My own view is that this objective should be promoted on the outlays side of government budgets and, via the tax system, through a progressive rate structure for personal direct taxation. The precise form of that rate structure is more controversial. I personally would be prepared to accept a single marginal tax rate (possibly in the 25-35% range) above a suitably large, universally available, tax-free threshold, applied to a comprehensive definition of personal income (or expenditure). No doubt others will disagree, and push for more – or fewer – “steps” in the rate structure.

As to indirect taxes, such as Wholesale Sales Tax and the numerous other Commonwealth and State/local taxes of this broad type, I personally would favour as rigorous an application of the broad

base/low uniform rate principles as is possible.

While others will want to add refinements to these broad design principles, I would hope that there is at least substantial support for their basic thrust. Anyway, they are the criteria against which I propose to evaluate Australia's tax "system".

An Alternative Balancing Of These Tax Design Criteria

Before using these criteria to evaluate Australia's tax system, I should mention an alternative view about how they should be balanced. At its core, this view is based on a more discriminating approach to taxation, based on two related real-world problems:

- In a world where different tax bases display different degrees of mobility, it is better, from an efficiency perspective, to concentrate taxation on the *least mobile tax bases*. Attempting to tax mobile tax bases (eg, income from internationally-mobile investment capital) is likely to drive those bases, and the economic benefits they may bring, away.
- In a world where different tax bases are more or less easily measured or tracked, it is better to concentrate taxation on more measurable tax bases. That is both more efficient and more administratively simple.

These efficiency/simplicity concerns are not necessarily inconsistent with equity concerns. If, for example, they lead to the conclusion that there should be greater emphasis on taxation of property, and the value of property ownership rises with overall income, then to that extent such an approach might be fair as well as efficient. More generally, a more efficient tax system does less damage to the size of the economic "cake" which can be produced with an economy's resources. A larger cake, in principle, allows more revenue to be raised for a given tax rate, and thereby may allow more to be spent on transfers to redistribute income.

If it is possible to define a relatively immobile tax base which is also reasonably fair (ie, consistent with vertical equity principles) and easy to measure, then I can see why it offers attractions. But such an approach does imply distortions as between different forms of income (eg, it may imply heavy taxes on property and light taxes on dividend income). If, over time, effective demand for different types of income-producing assets is influenced by expected after-tax rates of return (adjusted for risk), this tax-related distortion should divert investment capital away to other investment avenues until risk-adjusted after-tax rates of return are equalised.

If this occurs, then the immobility of one tax base (eg, land/property) may be more apparent than real: the investment capital driving effective demand for, and the valuation of, land and property can be driven away from land and property if the tax burden thereon reduces after-tax rates of return by enough to make such investments perform well below others.

3. Australia's Present Tax System: How Does It Stack Up?

Against the tax design principles set out in Section 2 above, how does Australia's tax system stack up? The short answer is: it doesn't. If "comprehensive" and "uniform" are important criteria, the only sense in which they apply to Australia's tax system is in the negative. The best description of our tax system is that it still represents a pretty comprehensive and fairly uniform failure. Simplicity is also honoured in the breach.

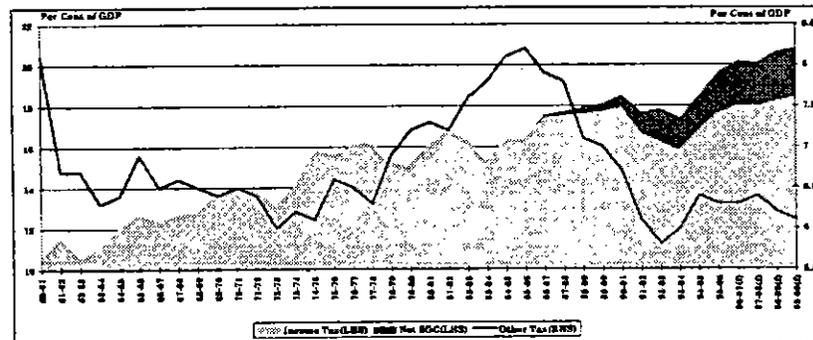
The remainder of Section 3 presents selected examples of how our tax system fails basic tax design principles.

3.1 The Indirect Tax System

Indirect taxes are defined as all taxes on product flows and other taxes levied on business activity each year. They exclude taxes levied on income, profits and saving flows (generally referred to as *direct* taxes, of which income tax is the main example) and taxes on stocks of wealth.

Australia's indirect taxes are generally narrowly-based, and in some cases highly non-uniform tax rate structures apply to those bases. The indirect tax base is leaking badly and overall revenue reliance is shifting away from it to direct taxes (see Chart 1 below).

Chart 1
The Changing Commonwealth Tax Mix, 1960-61 To 1999-2000



Sources: RBA Occasional Paper No. 8, Budget Papers, Access Economics.

Australia's indirect taxes are often inefficient, unfair *and* complex: the antithesis of what is needed. Some examples illustrate the point.

Wholesale Sales Tax

Wholesale Sales Tax (WST) applies predominantly to the wholesale value of manufactured products. Some food and clothing, and many services (including retail margins) are not formally subject to WST. The WST tax base is shrinking as a proportion of total spending on goods and services in Australia. Regular increases in the *rates* of WST are needed to prevent revenue from this source shrinking as a proportion of total revenue.

Labor's opposition to the Coalition's GST proposal was successful in the 1993 federal election campaign. Having ruled out a truly broad-based alternative to the WST, we saw WST *rates* increased significantly as a result of the 1993-94 Dawkins Budget in an attempt to stop the indirect tax revenue rot.

The rate structure is a joke. For products subject to WST, there are now *six* possible tax rates: 12%, 22%, 32%, 37%, 41% and 45%! The criteria for determining which of these rates will apply are often laughable.

Let's return to the milk products example noted in Section 2 above.

The current WST rules are roughly as follows. Milk products *defined as milk to the extent of at least 95%* are exempt from WST. However, if the milk is flavoured, and 90% or more of the beverage is milk, it is subject to WST at 12%. If less than 90% of the beverage is milk, it is subject to WST at 22%. If the flavoured milk-based beverage is made at home from WST-free ingredients, whatever its composition, the WST rate is zero!

Two other examples show that the WST is a mindlessly complex system – *just in the area of food and beverage products.*

Concentrates for making non-alcoholic beverages consisting of at least 25% by volume of fruits or juices (and similarly for cordials and preparations for flavouring food), plus non-alcoholic, non carbonated beverages (using the same 25% minimum criterion) attract a 12% WST. Carbonated beverages, consisting *wholly* of juices of fruits or vegetables, also attract a 12% WST. Non-alcoholic beverages failing these tests generally are liable for WST at 22%!

Low-alcohol wine or cider (defined as having 1.15% or less by volume of ethyl alcohol, where the measurement is undertaken at 20 degrees C and on the basis that the specific gravity of ethyl alcohol is 0.79067 at 20 degrees C in a vacuum), manufactured in Australia, is subject to 12% WST.

Other, stronger, alcoholic beverages are either (in the case of beer) subject to 37% WST, or, in the case of wine and cider, subject to 41% WST.

There are numerous other examples of how different WST rates give rise to all sorts of arbitrary and complex rules under the WST.

Petroleum Product Excise

Excises on most petroleum products in Australia now include a replacement component for franchise fees previously levied by most States and Territories. This follows a High Court decision in August 1997 that such fees were illegal.

The excise rate as a percentage of the value of the product is often very high: up to 100% or more. But rates are not uniform and the tax base is not comprehensive.

There are concessions for use of natural gas, introduced deliberately to distort choice away from other petroleum products towards gas. A notable exemption applies to off-road use of diesel predominantly for farmers (who receive a 100% rebate for such use) and miners (who receive a 90% rebate). The differences between the treatment of farmers and miners is hard to understand. The failure to extend similar treatment to *all* off-road use of diesel (and why stop at diesel?) is even more inexplicable in terms of broad principles. More generally, even if the focus is confined to use of energy, why is the base confined to petroleum products? These are not the only depletable energy resources used in Australia.

For petrol excise, the broad base/low uniform rate design rules do not apply.

Payroll Tax

A comprehensive, uniform-rate payroll tax is actually not a bad indirect tax. It has features that make it fairly close to a value-added tax, or a tax on consumption, where the collection process cumulates labour value added down the production chain. The trouble is that in

Australia, when payroll tax was introduced by the Commonwealth Government in 1941, there was already a low-payroll exemption (payrolls below \$40 a week). This exemption was periodically increased up to the time the tax was handed over to the States.

The States and Territories continued the process, further undermining the payroll tax after it was handed over to them in 1971:

- low-payroll exemptions have since been increased, further reducing the comprehensiveness of the payroll tax base
- different rates applied in different States and Territories (although more recently these differences have narrowed)
- the definition of the payroll base has varied in relation to the inclusion or otherwise of employer superannuation contributions, and the treatment of employee fringe benefits
- and there have been a number of deals between States/Territories and individual businesses under which payroll tax for these businesses is waived (these deals are often less than fully transparent).

In short, the present payroll tax system, run by the States and Territories, is neither a model of comprehensiveness nor uniformity.

Other Indirect Taxes

There are many other indirect taxes at State and local government level. These include:

- liquor and gambling taxes
- financial institutions duties
- various stamp duties on insurance contracts, financial and property transactions
- motor vehicle taxes.

Some of these, notably the "sin" taxes such as liquor and gambling taxes, can be shown, overall, to be economically fairly efficient (even if they do not discourage drinking and gambling much, they are good at raising revenue). But some of these "sin" taxes *themselves* are highly non-uniform. For example, effective tax rates on gambling vary between States and Territories – and may also depend on the type of bet placed!

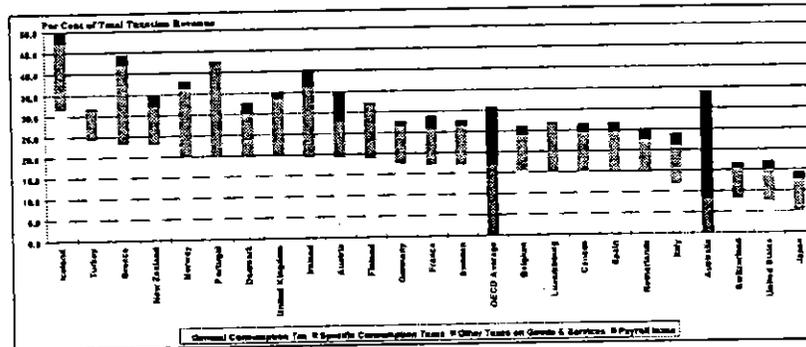
Other State/territory/local taxes, such as stamp duties on financial transactions and land taxes on income-producing property, are more likely to be economically inefficient and distorting.

In most cases, the tax bases for these revenue instruments are narrow, and tax rates are often quite high.

Overview

Chart 2 shows how Australian reliance on indirect taxes compares with that in other OECD countries.

Chart 2
Relative Reliance On Consumption-Like Taxes, OECD, 1993



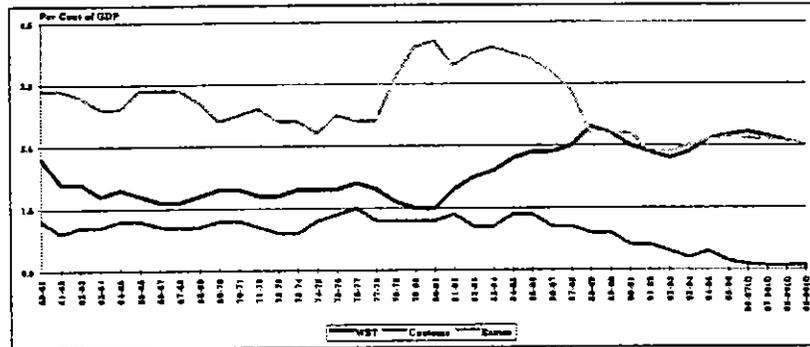
Source: OECD Revenue Statistics 1995.

The main features shown in Chart 2 are:

- Excluding payroll taxes, Australian reliance on taxes on goods and services, at a little over 28% of total tax revenue, was slightly below the OECD average (about 30%) in 1993.
- If payroll taxes are included as consumption-type taxes, Australian reliance on all such taxes, at about 34%, was higher than the OECD average (just under 31%).
- But Australia relied more heavily on selective or specific consumption taxes than the OECD average (as measured by the OECD, over 20% for specific and other taxes on goods and services for Australia, compared with a corresponding share of just over 13% for the OECD).
- Indeed, the Australian "general" consumption tax is its wholesale sales tax (WST). Given the very selective base for this tax, and its highly non-uniform rate structure, there are good reasons for treating it as a "specific" tax on consumption, or at least including it under "other" taxes on goods and services.
- So it can be argued that Australia depends relatively heavily on consumption-like taxes by OECD standards, *but all of its taxes in this area, including its selective payroll taxes, are narrowly-based, and subject to relatively non-uniform rate structures.*

At the Commonwealth level, indirect tax revenues come predominantly from three taxes: WST, excise and customs duties. All of these rest on shrinking bases, and, for customs duties, average rates are programmed to fall (hopefully to zero). See Chart 3 below.

Chart 3
Wholesale Sales Tax, Total Excise And Customs Revenue
As Proportion Of GDP



Sources: Budget Papers, Access Economics.

The Australian indirect tax system has neither a broad base nor a uniform rate structure. It imposes tax on business inputs, which is an inefficient way of raising revenue. It falls on Australian exports, which are often subject to tax in the receiving country as well (eg, through those countries' value-added taxes). It taxes consumption of goods and services within Australia at widely-differing rates.

In short, it is inefficient, unfair, complex and, from a revenue-raising perspective, leaking badly. Without changes in its basic design, attempts to shore up its revenue take at best are temporary, and can only be achieved by making the system even more distorting, inefficient and unfair (ie, by raising existing narrowly-based tax rates to counter the shrinking revenue take).

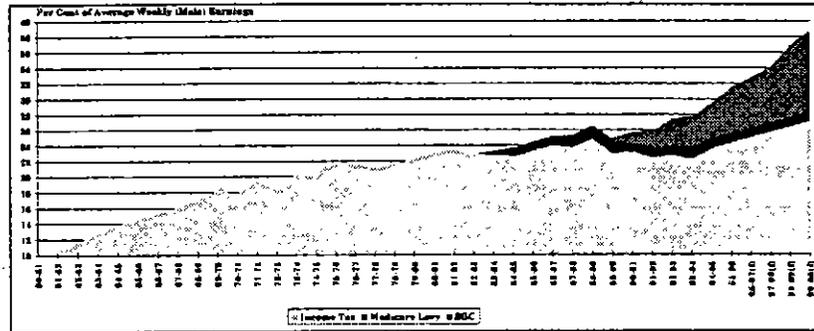
3.2 The Direct Tax System: Personal Taxation

Over the past four decades, personal income taxation burdens have increased for ordinary Australians.

The *average* income tax rate on average earnings shown in Chart 4 below includes both the Medicare levy and (net) compulsory superannuation contributions (a tax-like compulsory social security contribution).

The average income tax rate as defined in Chart 4 is forecast to increase over threefold, from under 12% at the start of the 1960s to over 38% by the end of the 1990s.

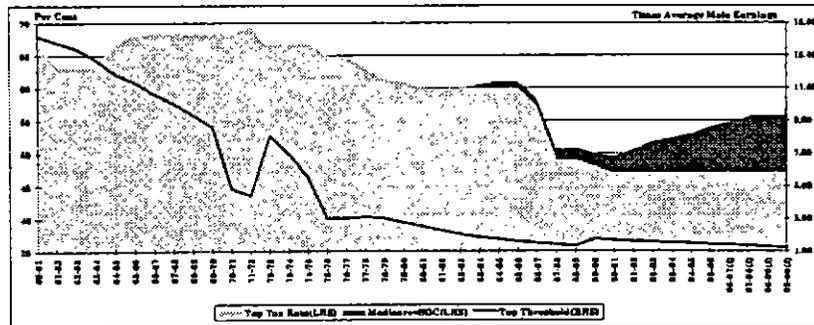
Chart 4
Average Income Tax Rates On Average Earnings



Sources: RBA Occasional Paper No. 8, Budget Papers, ABS Cat. No. 6302.0, Access Economics.

As far as *marginal* personal income tax rates are concerned (ie, the tax rate on the last dollar of income), the top personal income tax rate is cutting in at lower and lower taxable income levels compared with average earnings. See Chart 5 below. In 1960-61 the top marginal income tax rate (then 67%) cut in at about 14.25 times total (male) average earnings. By 1999-2000, on the basis of the current income tax schedule and allowing for wages growth, the top marginal income tax rate (nearly 52% *including* the Superannuation Guarantee) will apply to taxable incomes of less than 1.25 times average weekly earnings.

Chart 5
Top Marginal Tax Rate And Ratio Of Top Marginal Tax Rate Threshold To Total Male Average Weekly Earnings



Sources: RBA Occasional Paper No. 8, Budget Papers, ABS Cat. 6302.0, Access Economics.

Despite a series of income tax cuts implemented in the 1980s and 1990s three other factors have caused the net increase in the personal income tax burden on ordinary Australians:

- (i) "tax bracket creep" as wages growth pushes more taxpayers further into the higher tax brackets (the thresholds for which are not indexed either to inflation or wages)
- (ii) in the past, an increase in the Medicare levy from 1% to 1.5% of total taxable income.
- (iii) In the past and in the future, the programmed increases in the rate of compulsory superannuation contributions: the Superannuation Guarantee (SG).

The direct tax system, interacting with the social welfare system, introduces very large and unfair distortions affecting taxpayer incentives to work and save (see Section 3.5 below).

3.3 The Direct Tax System: Taxation Of Superannuation And Other Saving

The recurring Australian taxation theme of non-comprehensiveness and/or non-uniformity applies to saving in the form of superannuation as well. For example:

- whether compulsory or not, eligible employer contributions to superannuation funds on behalf of their employees attract a basic contributions tax rate of 15%
- in the phase-in taxable income range for the coyly-labeled "superannuation surcharge", the effective contributions tax rate rises from 15% to 30% – with the increases applying to *all* super contributions, not just to the portion raising annual taxable income above the phase-in threshold of about \$70,000 per annum. Incidentally, the income test for determining whether or not the surcharge applies *excludes* fringe benefits, despite the obvious fact that the FBT system was introduced because fringe benefits are clearly a substitute for income in the form of wages and salaries, and, unless taxed as such, opened up major avenues for tax avoidance (as was the case before July 1986). Salary repackaging into fringe benefits is now attractive again for those wanting to avoid the surcharge
- above the phasing-in range, super contributions for employees with taxable incomes above about \$85,000 attract a contributions tax rate of 30% – ie, the 15% basic contributions tax and the "superannuation surcharge"
- because of the way in which the tax increments are applied, the

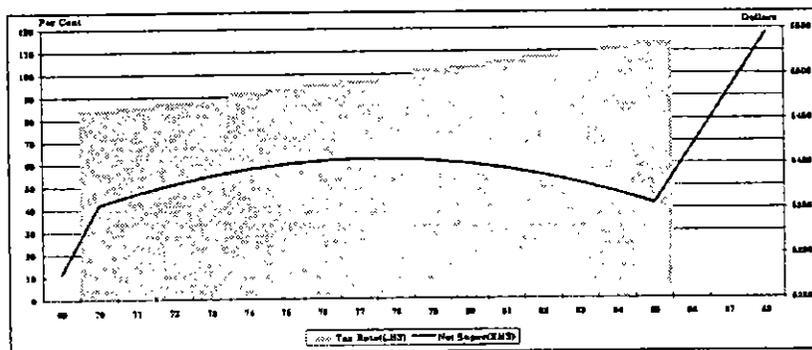
- marginal* contributions tax rate within the phase-in range averages 100%, rising from 85% to 115% (see Chart 6 below)
- contributions made for a non-working or low-income spouse are fully taxable but then attract a tax rebate of 18% up to a specified limit
 - non-eligible, or "excess" superannuation contributions are taxed at the normal income tax rate appropriate for the beneficiary
 - superannuation fund earnings are subject to a 15% earnings tax
 - different tax rates apply to different superannuation payouts.

Simplicity is not a description that springs to mind when one considers the present tax treatment of superannuation. Complexity, and a widespread perception that governments cannot resist yet more tinkering with this part of the tax system, are more relevant features.

Compulsory superannuation contributions deserve special mention.

Arguably these should not be taxed until drawn down in retirement. Compulsion means that such contributions are already tax-like (albeit hypothecated to own-financing of retirement incomes). Australia's Superannuation Guarantee is explicitly justified as a policy designed to shift retired people off dependence on the taxpayer-funded age pension and onto self-provided retirement incomes, helping to reduce future Budget burdens expected as the population ages. Siphoning tax off such contributions (and earnings) to finance present public sector spending directly undermines this stated objective of the Superannuation Guarantee.

Chart 6
Effective Marginal Tax Rates On Employer Super:
The Impact Of The Super Tax Surcharge
Phase-In Arrangements*



* Assumes 9% of remuneration package is employer superannuation contributions.
 Sources: 1996-97 Budget Papers, Access Economics.

Based on the design principles set out in Section 2 above, Australia's direct tax treatment of saving generally is a mess. The base is not comprehensive. Tax rates are not uniform. Different forms of income from saving are taxed differently. For example:

- (i) Savings invested in the family home can generate tax-free capital gains.
- (ii) Savings invested in other capital gains-producing assets are often, but not always, subject to income tax on realisation, but after adjustment for inflation.
- (iii) Savings retained in companies are taxed at a lower rate than the same savings distributed to the owners of the company facing the top personal income tax rate.
- (iv) Savings invested in superannuation are subject to lower rates of taxation than some other investments (especially if beneficiaries are not subject to the so-called superannuation surcharge – as noted above).
- (v) Savings invested in interest-earning assets effectively are subject to full income tax without inflation-adjustment.

In reality, Australia's direct tax system is a mixture of income tax and expenditure tax (ie, tax on income *minus* saving) elements. For example, investment in the family home is effectively expenditure-taxed (the home is purchased out of after-tax income but capital gains on sale are tax-free). Saving at interest is fully income taxed (the principal is fully taxed and so is interest earned on the after-tax principal). Superannuation savings generally are subject to lower tax rates, and so lie somewhere in between the income and expenditure tax ideals.

3.4 The Direct Tax System: Taxation Of Wealth

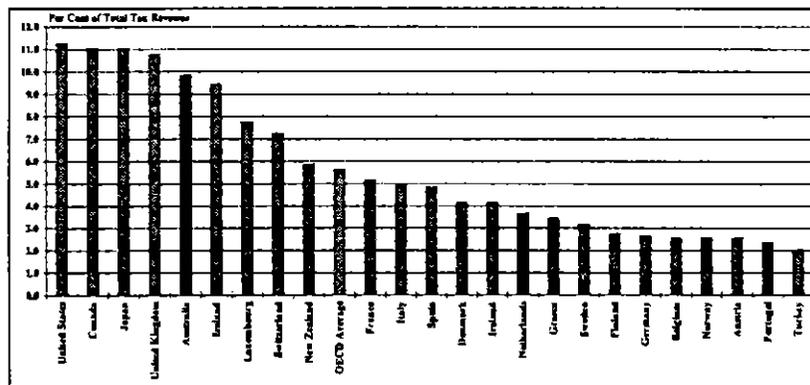
The taxation of wealth in Australia reveals the same old story: it is neither comprehensive nor uniform.

This is not to say that wealth taxes do not exist. Following the abolition of death and gift duties, they are less pervasive than before, but significant property taxes remain at the State and local government level, and in some parts of Australia (eg, Sydney) these extend beyond investment properties (including residential investment properties) to owner-occupied residences above a specified value threshold. As a proportion of total tax revenue, such taxes declined over the period from 1965 to around 1980-85, after which they have been rising again, and they are now getting close to their 1970 level.

As Chart 7 below shows, as a percentage of taxation revenue, property taxes in Australia are actually amongst the highest in the OECD:

- At about 10% of total taxation revenue, property taxes in Australia are a little short of double the OECD average of 5.7%. (Note that both figures are based on taxation defined to include compulsory social security levies, including Australia's Superannuation Guarantee.)
- Australian reliance on such taxes, on this basis, is the fifth-highest in the OECD, behind the USA (11.3%), Canada (11.1%), Japan (11.1%), and the UK (10.8%)
- Most OECD countries have property tax burdens, as defined here, less than half the Australian burden.

Chart 7
Taxes On Property, OECD Countries, 1993



Source: OECD *Revenue Statistics* 1995. Australian tax revenue includes net Superannuation Guarantee.

3.5 The Tax/Social Security Interface: Disincentive Traps

Some of the most serious cases of unfairness and disincentives to self-help arise, ironically, from the interaction between the social security system and Australia's "progressive" personal tax system.

The very system designed to help the less well-off – and some who are relatively well off – frequently operates as a trap, locking people into dependence on the social welfare system. This arises because social welfare benefits are targeted to those passing various means tests (both on private income levels and in some cases on assets).

When people earn private income in excess of the relevant income threshold, for example, such benefits are withdrawn, either over some specified private income range or, in some cases, all at once. The withdrawal of these government-sourced income payments, combined

with taxation on incomes under the personal tax system, can give rise to very high *effective marginal tax rates* on privately-earned income. In some cases these rates can exceed 100%.

There are many of these benefit phase-out zones, sometimes overlapping, affecting people all the way from very low incomes up to those on incomes of nearly \$90,000. Most affect middle- but especially lower-income people.

For example, a single age pensioner earning private income above the tax-free income allowance faces tax-like effects from a variety of sources as his or her non-pension income increases:

- Every extra dollar of non-pension income leads to withdrawal of 50 cents of pension.
- Every extra dollar of non-pension income leads to withdrawal of 6.25 cents of pensioner tax rebate.
- Once taxable income reaches the low-income threshold for the Medicare Levy, for the next \$1,000 or so, income increases attract Medicare Levy at the phase-in rate of 20%. Above the phase-in range the rate is 1.5%.
- Taxable income (inclusive of part-pension) is taxed at 20 cents in the dollar.
- Access to pensioner concession cards (PCC) cuts out on a "sudden death" basis once eligibility for the age pension is lost completely.

Allowing for these effects alone, for example, a single part-pensioner may face an effective marginal tax rate of as much as 67% – or even over 76% in the Medicare Levy phase-in zone – within the pension "phase-out" range. And, right at the top of the pension phase-out range, the pensioner faces the "sudden death" withdrawal of the PCC, which puts the effective marginal tax rate over 100%.

There are numerous other examples of "poverty traps". Some occur relatively high up the taxable income range. Both Labor and the Coalition have (slightly different) family assistance benefits that cut out on a "sudden death" basis at taxable incomes over \$60,000 per annum. These, too, involve effective marginal tax rates in excess of 100%.

The sources of these problems can include:

- the simple combination of the income tax rate scale and the withdrawal rate of a particular social welfare benefit,
- the emergence of a poverty trap (where one did not previously

exist) as a consequence of social welfare benefits often being indexed to inflation, while income tax brackets are not so indexed, and, in the worst cases

- the effective “stacking” of withdrawal rates of more than one social welfare benefit on top of one another (as illustrated by the age pension example above).

These “poverty trap” situations are clearly very *unfair*, in the sense that effective marginal tax rates can be higher for some groups than for groups with higher taxable incomes (a violation of vertical equity). They are also probably very distorting (economically *inefficient*), discouraging private saving, including for retirement, and operating as a disincentive to find work.

Not only are they unfair, but also they effectively hamper the efficient operation of Australia’s labour markets.

And to say that they violate the *simplicity* principle is an understatement.

3.6 Business Taxation: Company Tax, Dividend Imputation & Rate Alignment

Two issues currently under notice in the business taxation area are (i) the tax treatment of companies versus the tax treatment of trusts, partnerships, etc., and (ii) the problems arising from the fact that the top marginal rate of personal tax (48.5% including the Medicare levy and ignoring the SG) is well above the current company income tax rate of 36%.

Business Income Taxation: Companies Versus Trusts And Other Business Entities

It has been pointed out recently that the tax treatment of income earned in companies is different from the tax treatment of the same income when generated in trusts or other non-corporate vehicles.

This is true in some cases. The question is, which treatment is right?

In one area – that affected by dividend imputation for company income – it is the tax treatment of company income that is wrong, not the tax treatment of similar income earned in different business vehicles.

To understand why, we need to consider what dividend imputation is intended to achieve. Dividend imputation was introduced in July 1987

ostensibly to eliminate the so-called "classical" double taxation of income earned by corporate business vehicles and paid out as dividends. Before July 1987, net income generated by a company was taxed once when earned by the company, and then was taxed again when distributed to shareholders (at the relevant personal tax rate). Income generated in other business vehicles did not suffer from this double income taxation effect. After dividend imputation was introduced, in part company tax became a "withholding" tax – an advance on the tax to be collected from the ultimate owners of the companies at their relevant marginal personal tax rates. "Franking credits" in respect of company tax paid could be used effectively to cover part or all of the tax liability in respect of company income when distributed to shareholders.

In short, the whole purpose of dividend imputation was to correct a distortion favouring the generation of taxable income *outside* companies. That is, it was explicitly recognised then that the tax treatment of income earned in companies was different from the tax treatment of the same income when generated in trusts or other non-corporate vehicles *and that the company tax treatment was inappropriate*.

In part, that distortion remains today. For example:

- "franking credits" received by any shareholder with insufficient personal tax liabilities from other sources are lost in the year they are received: no refunds of "excess" company tax are paid (unlike the PAYE system, where employer PAYE "withholding" tax is refunded to employees if deductions have been excessive in relation to taxable income)
- the same goes for "franking credits" received by superannuation funds with insufficient other tax liabilities
- and "concessions" enjoyed by companies, such as inflation-adjustment of capital gains before tax is applied, access to R&D concessions, etc., can be largely if not wholly "washed out" – jargon for "lost" or "denied" – when income is distributed to shareholders. This arises because shareholders only receive "franking credits" in respect of company tax actually paid, and so pay the balance required by their personal income circumstances *including tax on the inflation component of any capital gain and on any income arising from concessional treatment under schemes such as the R&D arrangements*.

In short, to describe Australia's dividend imputation system as "full" imputation is misleading. To the extent that it is not full (ie, by denying refunds of company tax on distributed income when appropriate, or

denying the inflation adjustment benefits of the capital gains tax to shareholders) the "classical" double-income taxation of company dividend income remains.

The distortion giving rise to dividend imputation has *not* been fully eliminated. To this extent, taxing trusts, etc., like companies would "correct" the distortion only by extending the double income taxation problem to non-corporate business vehicles. That is a move in the wrong direction – effectively back towards the pre-imputation system.

Aligning The Top Personal Tax Rate With The Company Tax Rate

Amongst the tax reform measures announced on 19 September 1985 was the decision to align the top personal income tax rate (albeit excluding the Medicare levy) and the company income tax rate at 49%.

The then Government recognised that the gap between the then top rate (60%) and the company tax rate (46%) provided opportunities to shelter income in companies. The aligning of the two tax rates, in the words of the then Treasurer, "In a stroke ... will make a whole host of tax avoidance devices futile."

Before long, however, this initiative was reversed:

- in the May 1988 Economic Statement the same Treasurer announced a reduction in the company tax rate from 49% to 39% from the 1988-89 income year
- in the April 1989 Economic Statement, the then Treasurer announced a small reduction in the top personal income tax rate from 49% to 47%, where it has remained ever since
- in the February 1990 Economic Statement the then Treasurer announced an increase in the income level (from \$35,000 to \$50,000) at which the 47% rate cut in
- in his February 1993 *Investing in the Nation* Statement the same Minister – then the Prime Minister – announced a reduction in the company income tax rate from 39% to 33% for the 1993-94 and subsequent income years
- in the 1995-96 Budget, the then Treasurer (Ralph Willis) announced an increase in the company tax rate from 33% to 36% for the 1995-96 and subsequent income years.

Apart from complexity caused by the volatility in the company tax rate over this period, the renewed misalignment of the top personal rate and the company tax rate has opened up new opportunities to shelter income in companies and has necessitated additional measures (eg, in

relation to company loans to employees/shareholders) to limit the revenue erosion.

3.7 Overall Assessment

Wherever one turns, it is easy to find glaring deviations from basic principles for "good" tax design in Australia:

- the indirect tax base is too narrow, and applicable tax rates are both non-uniform and too high on average
- the personal direct tax base is either too narrow (if the benchmark is an income tax) or too broad (if the benchmark is an expenditure tax) and the tax rate structure is not uniform from either income or expenditure tax perspectives
- whatever one's views about the taxation of wealth, existing taxes on wealth in Australia are narrowly-based and involve tax rate non-uniformities as well
- the tax/social welfare system interface is the direct cause of some of the most unfair, distorting, and complex features of the Australian system
- as to business taxation, *and even if one favours an income tax benchmark*, the *company* tax base is either too broad, or tax rates are too high, in the sense that franking credit refunds (where appropriate) in respect of company dividends are blocked, and other benefits, such as inflation-adjustment of realised capital gains income in companies, are not passed on to shareholders. Distortions against companies as business vehicles remain and resulting incentives to sell unused franking credits have become an "undesirable" market response necessitating more complex anti-avoidance initiatives
- there are still plenty of opportunities for tax avoidance, exploiting various tax rate anomalies and tax base exemptions: over time these can be expected to lead to more anti-avoidance initiatives
- and all of this makes the tax system extremely complex to administer and with which to comply.

Whether or not recent tax reform initiatives are regarded as steps in the right direction (see Section 4 below), there is plenty of scope for further improvement.

4. Australia's Recent Tax Reform History

The broad diagnosis of what is wrong with Australia's tax system is really very old news.

I became aware of much of it at the Australian National University in 1966, when I studied public finance theory under John Head. It is unfortunate that the content of his lectures about tax principles at that time still provides a very useful analytical tool to consultants in the late-1990s when preparing submissions for clients on proposals to reform Australia's tax system.

The Asprey Committee had some very sensible things to say about taxation in Australia in its 1975 Report. But little was done in response to it.

More recently, there have been two major attempts at broad-ranging tax reform in Australia.

The first was the Labor Government's 1985 "Tax Summit" exercise, in the lead-up to which the strangely-titled *Reform of the Australian Taxation System: Draft White Paper* was released. (Why was it called a *draft white* paper? If it was really a discussion draft, why not call it a green paper?) As it turned out, the then Government's preferred option – Option C – did not become part of government policy, as the then Treasurer's 19 September 1985 Statement on reform of the Australian Taxation System reveals.

The second attempt was the Coalition Opposition's *Fightback! (Mks I & II)* policy proposals, of which tax reform was a major component. *Fightback! Mk I* was devised well before the 1993 federal election and released in November 1991. Revisions to the package (*Mk II*) were released in December 1992.

4.1 The Tax Summit, "Option C", & The September 1985 Decisions

The then Labor Government's preferred tax option ("Option C"), which included broad-based indirect tax reform and income tax cuts substantially financed via increased revenue from a new broad-based consumption tax (BBCT), was not implemented.

The politics driving the then Government to back away from this proposal will be debated by historians. It seems to me that the following ingredients helped lead the then Government to this decision:

- the Government appeared to be offering choices, but only in three packages, the contents of which were non-negotiable. Summit participants had to choose one of these
- in terms of public positions, the business community's statement at

the Tax Summit that it did not support "Option C" (when it really meant that it did not support some *parts* of that package) did not help

- social welfare groups and the union movement were not attracted to the introduction of a BBCT at a rate of 12.5%, not least because a sizeable portion of the revenue raised from it was to be used to shift reliance away from revenue from income tax to revenue from taxing consumption.

With business, the unions and social welfare groups apparently united in opposing the then Government's preferred tax reform package, "Option C" was dropped.

The Government's revised tax reform package was announced by the then Treasurer on 19 September 1985. Its features included:

- no broad-based consumption tax
- a minor rationalisation of the wholesale sales rate (WST) structure, reducing the number of (positive) rates from four to three: 10%, 20%, and 30%. This did not last. Australia now has six (positive) wholesale sales tax rates: 12%, 22%, 32%, 37%, 41% and 45%
- a minor broadening of the WST base primarily to reduce the more glaring anomalies (eg, covering snack foods, confectionery and ice cream products)
- a large number of measures effectively making the income tax system more comprehensive. These included introduction of income tax on capital gains and fringe benefits, and the introduction of (partial) dividend imputation in respect of dividend income from companies
- some measures designed to ease the severity of some "poverty traps" associated with the interaction between the income tax system and the social welfare system
- limitations on access to negative gearing benefits for rental property investments (since abandoned)
- reductions in personal income tax rates, especially for higher income earners (the *formal* top marginal rate was reduced from 60% to 49%), largely paid for by broadening the income tax base.

In short, *indirect* tax reform effectively was abandoned. As to the *direct* tax system, there were some very significant reforms *if one supports an income tax rather than an expenditure tax approach*.

The direct tax base became more comprehensively an *income* tax base, and formal income tax rates were lowered as a result.

4.2 *Fightback!* Mks I & II

The tax reform component of *Fightback!* initially comprised the following main features:

- a 15% comprehensive near-New Zealand-style goods and services tax (GST), the revenue from which was to be used to finance abolition of WST, payroll tax, petroleum product excise, and a substantial portion of personal income tax cuts
- net public expenditure reductions, to finance additional personal income tax cuts
- an increase in the company tax rate to 42%, where it would be aligned with the top marginal rate of personal income tax.

After a favourable reception when it was unveiled in November 1991, the attacks on *Fightback!* grew in the period up to the 1993 federal election. Paul Keating as Prime Minister proved a very formidable and effective political opponent to a tax reform package that was similar in broad structure to his own "Option C".

Some modifications were made to the package. On the tax reform front, the GST was modified to exclude certain food products (ie, "fresh" food, etc). Other tax reform elements were not changed.

But the opposition – especially to the GST – continued. Paul Keating's election campaign line:

"If you don't understand it, don't vote for it, and if you do, you won't vote for it."

sounded compelling, given the complexity of the tax reform package.

The Coalition narrowly lost the "unlosable" election in 1993.

People are still arguing about the extent to which the *Fightback!* package in general, and the proposal for a GST in particular, was the cause of that outcome.

What did *Fightback!* achieve? It seems to me that it had four main impacts:

- it helped make Paul Keating Prime Minister for one term
- it led to the release by Paul Keating of *One Nation*. This was Paul Keating's manifesto on how to deliver *Fightback!*-sized income tax cuts without a GST, using optimistic economic forecasts to

provide the needed Budget revenues instead. As we now know, even L.A.W. tax cuts, if unaffordable, can be delayed or transformed

- after Labor's election success in 1993, which was based on opposing indirect tax reform via a GST, it led to the 1993-94 Dawkins Budget that increased the distortions inherent in Australia's wholesale sales tax by increasing WST rates, and also increased petroleum product excise rates as well
- and finally, after one false start, it helped make John Howard Opposition Leader, and then Prime Minister.

Indirect tax system reform remains a major piece of unfinished business in Australia.

4.3 Some Lessons From This History

Different people will draw different lessons from these recent attempts at broad-based tax reform in Australia.

In my opinion, there are at least four key lessons:

1. Tax reform can be viewed as a revenue-neutral exercise, the focus of which is not on *how much* but rather *how* revenue is raised. But selling the mere redistribution of a constant taxation burden is difficult. Zero-sum games involve losers as well as winners. Revenue-neutral tax reform is much harder to sell than revenue-negative tax reform (contrast *Fightback!* with *One Nation* – the incredibility of the latter notwithstanding).
2. Shifting a constant revenue burden away from taxes on income to taxes on consumption – known in the trade as a “tax mix switch” – was a substantial component both of “Option C” and *Fightback!* This shift, for various reasons, was regarded as unfair by social welfare groups even though substantial compensation (sometimes over-compensation) was included in both packages. There are good political and economic reasons why this should not have been pursued (see Section 5 below).
3. The “tax mix switch” requires a very complex compensation package primarily because of the price-increasing effects of introducing a large GST. This included, in the case of “Option C”, specially-structured income tax cuts, and increases in social welfare benefits. In addition, in the case of *Fightback!* it included new benefits (“refundable tax credits”) for groups falling between the income tax and social welfare benefit stools, as well as wealth compensation in respect of some financial assets for lower income groups. The very complexity of this compensation package –

especially if it was done properly – itself made selling tax reform including a large GST very difficult.

4. Developing a few tax reform package options secretly and then unveiling them (as per the *Draft White Paper*) or suddenly unveiling *the* definitive package (as per *Fightback!*) locked their proponents into positions that limited scope for consultation with interest groups. This probably increased the chances that substantial sections of the community would be persuaded to oppose change. They had no ownership of the proposals.

These broad lessons suggest a number of ways to improve the chances of more successful attempts at tax reform in future. These are covered in Sections 5 and 6 below.

5. Tax Reform In Future: What *Not* To Do

In my opinion, the lessons of history listed above can be learned once, or twice, or, if we are particularly stubborn, many times. My preference is to learn these lessons once, or if we must, maybe twice, *but not three or more times*.

The lessons that I carry from 1985 and 1993 are as follows (reversing the order set out above):

- *Before* finalising any tax reform package, try to consult widely, try to involve key sub-political interest groups in the process, and resist the temptation to impose a package on the community beforehand. This process carries its own difficulties, but one of the messages of the past is that fairly broad-based community support will be needed to effect broad-based tax system reform. So far, the Government *appears* to be following this course.
- As far as possible, propose a tax reform package that minimises the need for complex compensation measures. Such measures, by definition, produce *zero* net improvements in taxpayer/social welfare recipient positions, at best. At worst, such measures are costly, are difficult to understand, are regarded with suspicion, and are assumed by those affected likely to be eroded over time.
- Avoid measures that have dubious economic and political benefits when compiling the tax reform package, such as a “tax mix switch” (see Section 5.1 below for more details).
- And – although this is controversial – explore the scope for making the overall tax reform package *revenue negative* rather than revenue neutral, at least for honest taxpayers (see Section 6.2 below).
- Finally, picking up a theme of this paper, eschew narrow tax bases and consequent high/non-uniform tax rates, in favour of broad

bases and low, more uniform tax rates.

The remainder of Section 5 looks more closely at some measures that should *not* form part of any saleable tax reform package.

5.1 The "Tax Mix Switch"

As noted earlier, the "tax mix switch" is jargon for increasing reliance on revenue from indirect taxation, via introduction of a GST, and using some of that revenue to finance income tax reductions and increased social welfare benefit rates, so that the overall outcome is revenue-neutral.

For example, a broad-based 10% GST might be used to finance abolition of WST (which would use roughly half of the GST revenue raised or a little more, depending on how broad is the GST base) with the remaining GST revenue financing personal income tax cuts.

Ignoring any "fiscal dividend" from better taxpayer compliance arising from the GST (see Section 6.2 below) this proposal will produce a significant one-off increase in consumer prices. Because the GST *rate* applied to the GST base (10%) is larger than the average effective WST *rate* across the same tax base (about 5-6%), this change to the indirect tax system involves an increase in the average indirect tax rate (4-5 percentage points). Assuming all tax changes ultimately are passed on to consumers, this implies a one-off increase in consumer prices, possibly of the same broad order of magnitude.

Primarily because of this price effect, complex compensation measures are required to leave taxpayers and social welfare beneficiaries no worse off. And it is this compensation requirement that causes all the problems.

This proposal violates four of the five lessons set out at the start of Section 5:

- It is revenue-neutral.
- It requires complex compensation measures just to leave people *no worse off*.
- And it offers dubious economic benefits (see below).
- And it will not be accepted as a result of wide community consultation.

Apart from difficulties involved in revenue-neutral tax reform packages, this proposal is both bad politics and bad economics.

It is bad politics because it requires the government to sell income tax cuts and increased social welfare benefit rates that at best *leave nobody better off*. (See Table 1 below, which assumes a one-off price increase of 3.6%, and shows how taxpayers' nominal and real after-tax income is affected as a result of compensating income tax cuts. Note that very low-income taxpayers cannot be fully compensated through tax cuts because they do not pay enough tax.) Unless this point is made by the proponents of such a package, they will be accused of trying to fool ordinary Australians.

Table 1
Effect On Real After-Tax Income Of A "Tax Mix Switch"
Inducing A One-Off Price Effect Of 3.6%

Income (\$ p.a.)	Cut in income tax (\$ p.w.)	Change in money income (%)	Change in real spending power (%)
6,000	2	2.0	-1.6
10,000	6	3.6	0
20,000	12	3.6	0
30,000	17	3.6	0
50,000	25	3.6	0
60,000	29	3.6	0
100,000	43	3.6	0
140,000	58	3.6	0

Moreover, as history has shown, even the best attempts at compensation (which will be very complex) will not be believed.

In addition, a "tax mix switch" generating a significant one-off price effect is bad economics.

Much is made of the need to reduce *marginal* income tax rates. This may reflect:

- concern about the fact that those on average weekly earnings are moving towards a situation where they face the top marginal tax rates as a result of inflation and associated "tax bracket creep". (This could be permanently solved by tax bracket indexation, but that's another story – see Section 6.3 below)
- and/or concern that high marginal income tax rates are discouraging saving, investment and effort.

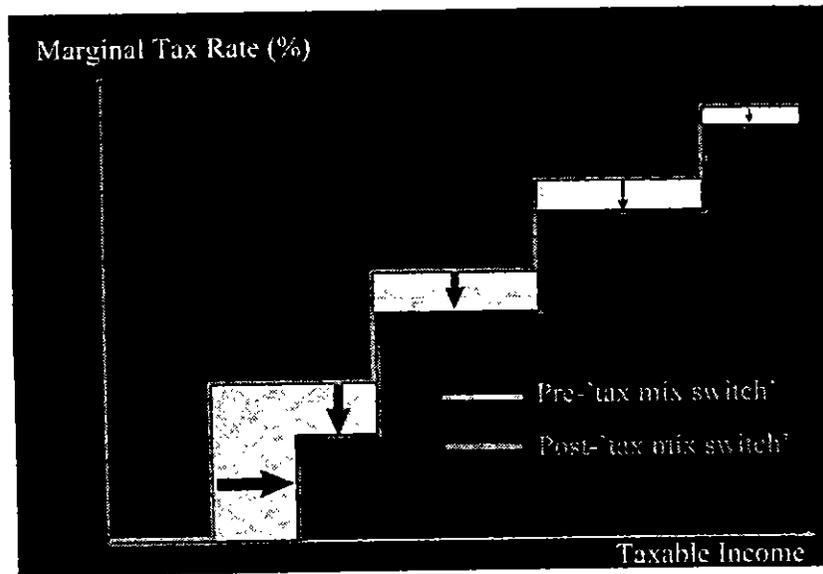
Either way, the concern is about *marginal* income tax rates.

The problem with income tax cuts financed by a price-increasing "tax mix switch" is that they must take a very specific form. What is needed is:

- a very large increase in the tax-free threshold
- in percentage terms, a larger reduction in the lowest tax rate than the highest tax rate.

Chart 8 below illustrates the shift in the personal income tax rate structure required to compensate most taxpayers for the one-off price effect induced by a "tax mix switch".

Chart 8
Illustrative Shift In Personal Income Tax Rate Scale
Required To Compensate For Price Effect From
"Tax Mix Switch"



The problem, economically, with tax cuts structured like this is that *most of them go to reducing the income tax burden on the intra-marginal dollar, not the marginal dollar*. Millionaires receive the full benefit of the increase in the tax free threshold, as do most taxpayers. Most taxpayers also receive the benefit of the cut in the 20% marginal rate. Most also benefit at least in part from the cut in the 34% rate. Fewer benefit from the cut in the 43% rate, and a small proportion benefit from the cut in the 47% rate.

Increasing the tax-free threshold and reducing the 20% tax rate are the most revenue-expensive options, precisely because the overwhelming

majority of taxpayers benefit fully from these changes, and most do so without any effect on their *marginal* tax rates (which at present range from 34% to 47%, plus Medicare levy).

If the economic case for lowering income tax burdens rests on incentive effects, which in turn hinge on lowering *marginal* income tax rates, then tax cuts targeted *away* from marginal rates are very inefficient and wasteful, at best.

Politically, the "tax mix switch" is hard to sell because at best it simply shuffles the tax burden from one instrument (income tax) to another (the GST). Economically, compensatory income tax cuts throw a lot of foregone tax revenue into non-marginal income, with no effect on taxpayer behaviour.

Recent history says this sort of "tax mix switch" will be widely opposed.

5.2 The Non-Comprehensive GST Tax Base

Undoubtedly proponents of a GST will come under pressure to accept a less-than-comprehensive tax base. Exempting (technically, zero-rating) food will probably be suggested, for example.

This is not a good idea, either (and it didn't help *Fightback!*):

- it violates the broad base/low rate criterion: a narrower base means a higher average GST rate on what remains (see below)
- it makes the GST more complex, especially if only *some* food is zero-rated (we could end up with the absurd situation where a meat pie is subject to GST if sold hot, from a snack bar or cafe, or zero-rated if sold cold, as part of a packet of pies in a supermarket)
- it will give rise to pressure from other groups (eg, clothing manufacturers) for zero-rating of their products because they also are "necessities of life".

The most respectable argument for zero-rating food is that it allows the GST system, in a very rough and ready way, to promote vertical equity (ie, a lower percentage tax burden on poorer people than on the rich). But while it can be shown that this case is *qualitatively* correct, *quantitatively* it is very much a matter of 100 steps forward and 99.7 steps back – at best. This is because, for any given revenue target, narrowing the GST base to exclude food raises the required GST rate on what is left, and *poor people spend money on non-food items as well*.

What are the broad distributional implications of excluding or zero-

rating food? One way of looking at this question is to conduct the following conceptual experiment:

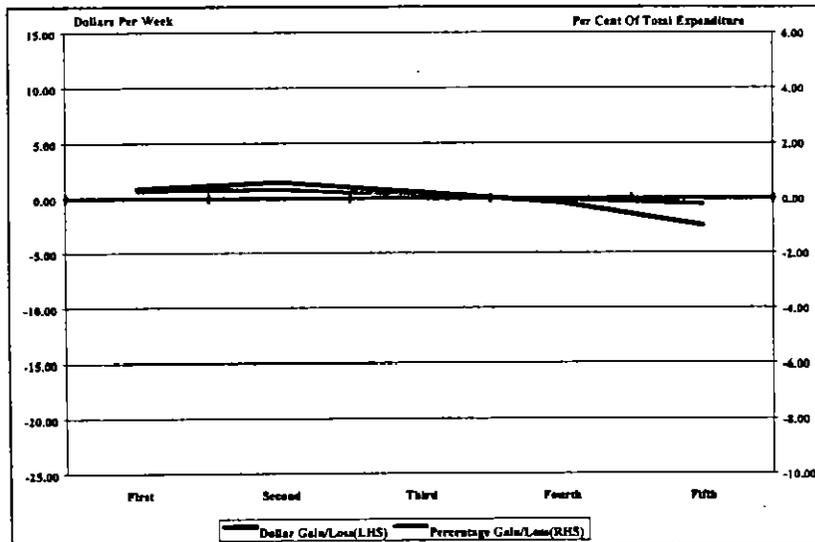
1. Impose, say, a uniform 10% additional indirect tax on all household expenditure on commodities and services and assume this is fully passed on in higher prices to consumers.
2. As an alternative, impose an additional tax on all household expenditure excluding food, with the rate set so as to raise the same revenue as in 1., assuming the tax is fully passed on to consumers.
3. Compare the distributional average price differences between alternatives 1 and 2.

This is clearly an extreme experiment. Even if, in practice, food were to be zero-rated, that benefit would be extended only to *some* food – primarily fresh or non-processed food. Nevertheless, this experiment provides some indication of the “100 steps forward, 99.7 steps back” nature of this attempt to promote vertical equity via taxes on products rather than people.

Chart 9 below shows the distributional differences between these alternatives.

Based on the 1993-94 Household Expenditure Survey (HES) data, zero-rating food requires a 12% tax rate to compensate revenue collections for the narrower tax base (which is about 83.5% of total expenditure less income tax) in place of a 10% rate on 100% of expenditure less income tax.

Chart 9
Distributional Impact (Gains & Losses)
From Zero-Rating Food (12% Tax Rate)
Compared With Equal-Revenue GST On All Expenditure
(10% Tax Rate)



Source: Derived from ABS Cat. No. 6535.0.

As Chart 9 shows:

- This is a very cumbersome and inefficient way to promote vertical equity.
- In fact, the biggest “winners” are not in the lowest income quintile anyway; they are in the second-lowest income quintile.
- These second-quintile “winners” gain less than one-third of one per cent, or less than \$1.50 per week, compared with the equal-revenue comprehensive GST alternative.
- The biggest “losers” are in the highest income quintile. On average these households “lose” about one-fifth of one per cent, or about \$2.50 per week.
- The distributional gains – little more than 0.5 percentage points across the household income range – are a poor payoff for a 20% higher indirect tax rate, plus all the problems arising from a non-uniform rate structure.

In the real world, where a significant proportion of (mainly processed) food *will* be subject to any GST, the distributional benefits from zero-rating food are likely to be even smaller.

Distributional objectives are better pursued through the direct tax system, or, better still, through the social security system.

5.3 Increasing The Double-Income Taxation Of Business Income

There may be areas of business taxation where increased taxation is appropriate. The fact that Sanitarium does not pay income tax because of its ownership by the Seventh Day Adventist church is a good example. It competes head-to-head with other businesses such as Kelloggs and Uncle Toby's and has up to 25% of the ready-to-eat breakfast cereal market. Where is the competitive neutrality in that situation? This anomaly should be corrected by requiring Sanitarium to pay tax on the same basis as its commercial rivals.

But in one area – the tax treatment of companies versus partnerships and trusts – there is no case for increasing business taxation on average, and indeed a case for reducing it.

The whole rationale for introducing dividend imputation into the company tax system was to attack a distortion discouraging investment in companies versus other business vehicles: double income taxation of dividend income from companies.

But, as explained in Section 3.6 above, the fact is that dividend income is partial rather than complete, and so tax-based distortions against companies remain to that extent. The remaining distortion should *not* be corrected by extending the defective tax treatment of corporate dividends to non-corporate business entities, but rather by moving to *genuinely full* dividend imputation for companies. This would cost taxation revenue in net terms at current taxation rates. But getting the applicable (comprehensive) tax base *right* should be the first step. The required revenue should then determine the required (preferably uniform) tax *rate*.

It follows from the foregoing principles that taxing business income *more than once* for the purpose of generating additional tax revenue to finance nominal reductions in business tax rates would be inappropriate.

This applies to the so-called 30:30:10 proposal now doing the rounds of the rumour mill. Under this proposal the top personal and company tax rates would be aligned at 30%, and the cost of this would be financed, in part, by abolishing dividend imputation. Apart from the fact that this proposal does not seem to add up politically, its impact on

the taxation of dividend income is very unfair and distorting relative to other forms of income.

Such a proposal would tax business income at a *higher* rate in the hands of the ultimate beneficiaries than other forms of income, and, depending on how it is designed, may involve distortions as between different types of business entities as well. For example, abolition of the present dividend imputation system would re-introduce a bias against dividend income generated through companies. At current tax rates, for example, for a taxpayer on the top marginal rate of 48.5% (including Medicare levy) and with a company tax rate of 36%, dividend income would face an effective tax rate in that shareholder's hands of over 67%. If the company and top personal rate were lowered to, say, 30%, then the taxpayer's wage income faces a tax rate of 31.5% (including Medicare levy), while dividend income would ultimately face a tax rate over 52%. Under this second scenario, as far as superannuation funds are concerned, abolition of dividend imputation would result in fund earnings by way of dividends being taxed at an effective rate of 40.5% – about 2.7 *times* the 15% rate applicable to other superannuation fund earnings.

5.4 Exacerbating Disincentive Traps

Whatever the reforms in the tax/social welfare area, any proposals introducing or increasing effective marginal tax rate “disincentive traps” should be avoided – we have far too many of these already.

Amongst current proposals for tax reform, there is one income tax suggestion that could give rise to this problem.

Some have suggested abolishing the present tax-free threshold by extending the 20% tax rate from the first dollar of taxable income up to \$20,700, and using the revenue saved to:

- finance rebates or transfer payments, equivalent to the value of the tax-free threshold, but targeted only to the poorest in the community
- with the remaining revenue to be used to finance marginal income tax rates for higher income groups.

But this proposal raises problems:

- if not designed very carefully, it introduces high effective marginal tax rates for taxpayers earning income within the range where the new rebate is withdrawn: this could violate the vertical equity principle

- and even if carefully designed to exploit the existing "steps" in the income tax rate scale, so that there is no "bump" in the marginal income tax rate scale, it still involves financing *lower* marginal income tax rates for relatively few higher income earners using *higher* effective marginal income tax rates for relatively many lower income earners. This redistribution of the tax burden to lower- and some middle- income earners will be difficult to sell.

Some may still support this proposal, but in combination with income tax cuts financed in other ways, so as to disguise its adverse distributional impact. In 1985 and 1993, the "tax mix switch" was similarly buried within overall packages that included additional income tax cuts financed in other ways. But any attempt to disguise the adverse effects of this proposal – and the "tax mix switch" – will not succeed now. There are too many people who understand what is really going on, and will say so.

6. Tax Reform In Future: Some Proposals Worth Pursuing

There is plenty to do to improve Australia's tax system. The indirect tax system is a clear candidate for major change. There is also much that needs to be done elsewhere.

In the broadest terms, my guidelines for tax reform are as follows:

1. Give priority to broadening tax bases *provided they are defined properly* and moving to lower, more uniform tax rates applied to those bases.
2. In order to make tax reform more saleable, if possible compile an overall package that is revenue-negative, with reductions in all personal income tax rates helping to deliver this outcome.
3. Seek through consultation the widest possible support for proposals before finalising any tax reform package.

The remainder of Section 6 gives some examples of what I regard as desirable tax reforms.

6.1 A Near-New Zealand GST - Or Better - Replacing Existing Indirect Taxes

As far as the indirect tax system is concerned, tax reform should include:

- introduction of a GST on a tax base (targeted primarily to private consumption) as comprehensive as the New Zealand version or as

- near to that as possible
- application of a uniform GST rate to this base
- the precise rate should be determined by calculating how much revenue is required (excluding any allowance for a "fiscal dividend" from improved taxpayer compliance) to finance abolition of, or reduction in, existing indirect taxes
- as a political judgement, I would limit the GST rate to no more than 10%
- provided the GST base is comprehensive, this should finance abolition of WST, abolition of payroll tax (which requires a revenue-sharing deal with the States and territories), and a modest net reduction in the average petroleum product excise rate
- if the indirect tax candidates for removal are more limited, I would lower the GST rate accordingly.

There are a number of refinements that probably will be needed as well. These include:

- transition provisions because of large net price effects on some "big ticket" items such as motor vehicles
- some sorting out of what will be permitted as regards reductions – if any – in prices of alcoholic beverages as a result of abolition of WST (as well as sorting out inequities as between different alcoholic beverages)
- registration cut-off thresholds for small businesses, as well as longer intervals between GST remittances for small businesses than for large businesses.

But the basic thrust of indirect tax reform should be to replace a number of existing narrowly-based indirect taxes with *one* uniform, broad-based alternative.

6.2 Financing *Real Personal Income Tax Cuts*

In the absence of a "tax mix switch" how can any income tax cuts be financed? Leaving out proposals such as the targeted tax-free threshold (see Section 5.4 above), this may be done by:

- using some of the underlying Commonwealth Budget surplus expected to emerge in the next few years. Most if not all of this can be attributed to the cumulative revenue gains from "tax bracket creep" as a result of inflation since the last income tax cuts in November 1993. To be sure, the magnitude of the emerging surplus is uncertain, not least because of uncertainty about the likely effects of the Asian economic crisis on Australia's economic

performance. But allowing of the order of \$4-\$5 billion may still be reasonable

- using any "fiscal dividend" expected as a result of the introduction of the GST (see below). This might be as much as \$2-\$3 billion
- over time, using any modest efficiency gains emerging from a better overall tax system (although such revenue gains are likely to take some time to emerge and should only be used in the light of Budget circumstances at the time they emerge)
- effecting more outlays-side Budget savings through more expenditure restraint, although realistically there is likely to be *very* limited scope for this, at least as far as politicians perceive it, in the lead-up to the next federal election
- and, possibly, use of any net revenue generated by tidying-up direct tax system anomalies (although I suspect that there is little if any net revenue there, especially if some of the revenue *negative* proposals suggested in Sections 6.3-6.7 below are adopted).

What is meant by the "fiscal dividend"? If a "tax mix switch" as defined earlier is not pursued, the "fiscal dividend" as used here is the *additional* net revenue generated directly and indirectly as a result of introduction of a GST as part of revenue-neutral indirect tax reform.

The fiscal dividend arises because of the prospect of better compliance with the tax system overall. The registration process required under the GST will bring the business activities of a much larger number of businesses under the scrutiny of the Australian Taxation Office than is presently the case. In New Zealand, the introduction of a GST was expected to result in about 180,000 business registrations. Two years after its introduction, the number was 400,000 and rising. This registration mechanism offers the prospect of higher tax revenue via the direct tax system as well as the indirect tax system.

If businesses choose not to register, additional tax revenue is still likely as a result of their inability to claim refunds of GST paid on their business inputs.

This is not to say that the so-called "black" or "cash economy" will disappear. No doubt any GST *itself* will open up new ways to evade tax – especially if the tax base is not comprehensive and the rate structure is not uniform. But more of it is likely to come to light than under the present tax system.

An additional dividend *may* arise because of specific price-increasing effects faced by particular groups for which there are insufficient price-reducing offsets, and for which no compensation is offered via income

tax cuts or social welfare benefit increases. This effect is likely to be small in net terms however.

A feature of this "fiscal dividend" is that it arises even though, on average, the net CPI price impact of indirect tax reform is likely to be about zero. A larger fiscal dividend is likely under a "tax mix switch" but it comes at the cost of very complex compensation measures as noted earlier.

The more comprehensive the GST base, and the more uniform the GST rate, the more likely is a significant "fiscal dividend".

Across all sources, a "fiscal dividend" of \$2-\$3 billion seems likely to be conservative. The "cash economy" has been variously estimated at between 3.5% and 13.4% of GDP, involving an estimate of revenue foregone (1995-96 dollars) of about \$4-\$15 billion (see *Improving Tax Compliance in the Cash Economy* Cash Economy Task Force Report, 12 May 1997).

On this basis, the use of some "tax bracket creep" revenue, plus the "fiscal dividend" together suggest that some \$6-\$8 billion would be available to finance *real* income tax cuts or their social welfare benefit equivalent.

6.3 Tax Bracket Indexation

After any tax reform package is in place, ongoing arrangements to preserve the real value of the income tax cuts should be implemented.

The most straightforward solution is simply to index the personal income tax bracket thresholds to inflation, thereby eliminating "tax bracket creep".

Successive governments have been inconsistent on the matter of inflation adjustment. They have been happy to apply it when their revenue take is improved by it (eg, excise rate indexation), but unwilling to persist with it when their revenue take is reduced (eg, the abandonment of tax bracket indexation in the 1970s).

6.4 Sorting Out Taxation Of Superannuation & Saving

The distortions caused by the different direct tax treatments of different investment uses of saving could be removed in one of two ways. They could be removed either by moving towards a *comprehensive* and more uniform tax on personal income, or towards a *comprehensive* and more

uniform tax on personal expenditure (effectively like a personal tax on annual income *minus* saving).

There is a difference between these options, however. Inherently, income taxes bias choice against saving and in favour of spending now. This is because:

- under an income tax, income that is spent is taxed *once*
- but income that is saved is taxed *twice*: the principal is taxed, and then interest earned on the investment of the (after-tax) principal is taxed as well.

In contrast, under a direct expenditure tax:

- income that is spent is taxed once
- income that is saved is also taxed once: when it is finally spent.

Eliminating this bias against saving, as well as fixing up the distortions between different uses of saving, supports moving to a comprehensive expenditure tax *with an appropriately progressive rate structure* rather than moving towards an income tax.

As far as superannuation taxation is concerned, the following is consistent with a much simpler, more expenditure tax-like, approach:

- abolish the superannuation contributions and earnings taxes, and the "superannuation surcharge"
- allow all superannuation contributions, however made, to be made out of pre-tax income, and allow the funds accumulation process to proceed untaxed
- allow superannuation funds to claim *refunds* of franking credits in respect of dividends from Australian company income (see Section 6.6 below)
- tax all superannuation redemptions (except purchases of annuity-type products) at the appropriate personal tax rates of the beneficiary: this automatically discourages lump-sum redemptions versus annuities, because on average each year the latter attract lower taxation than lump-sum draw-downs under a progressive tax rate structure
- and, ideally, abolish all limits on superannuation contributions eligible for this treatment
- if possible accelerate the alignment of the preservation age and the retirement age
- *and then leave superannuation alone.*

Some will express concern at the revenue "cost" of these proposals in relation to saving. But what is the cost? If the concern is with the Budget's net contribution to *national* saving, the present focus on the "underlying" Commonwealth Budget balance overstates that. For example:

- every dollar of superannuation contribution, when made, represents a dollar addition to national saving
- the appropriation of tax revenue from the superannuation fund out of that dollar (whether from the standard contributions tax or from the "superannuation surcharge") adds nothing to national saving, but shuffles part of what was *private* saving into *public* saving: it makes the Budget bottom line look better by siphoning savings away from the private sector.

A more accurate assessment of the Budget's net contribution to national saving would be obtained by presenting it on an *expenditure tax basis*. Under this treatment the apparent "concessionality" of the present tax treatment of superannuation may well disappear, because concessionality would be measured against an expenditure tax benchmark rather than an income tax benchmark. The revenue "cost" of these proposals would also probably disappear.

6.5 Reducing Disincentive Traps

This is a huge problem area.

In general, policy makers face a choice between:

- complete elimination of such traps by eliminating any targeting of benefits, but recognising that universal access to benefits can be costly
- accepting the existence of some disincentive traps, but attempting to reduce their severity and/or reposition them
- there are no other choices.

I suggest a complete review:

- to identify all existing disincentive traps *and how they interact*
- to ascertain which are readily overcome
- to evaluate scope for rationalising/reducing/repositioning the remainder, and, especially, seeking to eliminate the severest cases where benefit withdrawal rates are "stacked" one on top of the other.

Some traps can be eliminated on a Budget balance-neutral basis. For example, the trap associated with the phasing-in of the Medicare levy could be fixed by:

- applying the low-income Medicare levy exemption to all taxpayers and raising the Medicare levy rate to ensure revenue-neutrality, or
- abolishing the Medicare levy, effectively folding it into the personal income tax rate scale via appropriate increases in marginal tax rates.

This is an example where the problem can be overcome via universal access to a concession.

But most social welfare benefits on the outlays side of the Budget cannot be corrected so easily. Universal access to such benefits is often very expensive, as is the "negative income tax" approach to this problem. Financing such an approach is likely to require quite high marginal income tax rates to be Budget balance-neutral.

However, there is scope for rationalisation. For example:

- why do we need *two* family assistance packages with income tests only a few thousand dollars apart (Labor's basic family payment and the Coalition's family tax package)? Indeed, why do we need welfare payments at all for families earning well over \$70,000 a year? These people, by the way, are regarded as sufficiently high income earners to pay the superannuation surcharge (unless they use the convenient escape route offered by the Government, and salary-sacrifice into fringe benefits which are not included in the relevant means test!)
- at the very least, can't we combine these two programmes?

In other cases, depending upon the precise location of disincentive zones and the number/nature of people affected, it might be desirable to soften the severity of high effective marginal tax rates. This may require slower benefit withdrawal rates, for example.

But this approach costs tax revenue or increases Budget outlays.

Where disincentive effects are severe and affect many people, however, that price may be worth paying on efficiency as well as equity grounds.

6.6 Business Tax Reforms

The dividend imputation system should be reformed. The reality of

this system should be aligned with the label attached to it by successive governments: it should be made *full* imputation by:

- allowing refunds of unused franking credits by individual shareholders and superannuation funds
- eliminating the “wash out” effect on concessions enjoyed by companies under which shareholders lose the benefit of those concessions when company income is distributed.

Ideally, the company tax rate should be aligned with the top marginal rate of personal income tax, thereby, in Paul Keating’s words, making “a whole host of tax avoidance devices futile”.

Finally, the hated Fringe Benefits Tax (FBT) system should be folded into the personal/PAYE systems, and present complex rules for application of FBT and valuation of benefits should be replaced by simpler broad “rules of thumb” to reduce compliance costs.

7. Some Concluding Comments

The main message this paper attempts to convey is that tax bases should be comprehensive and tax rates should be as uniform as possible. If anomalies and loopholes are permitted, either through tax base exemptions or tax rate differentials, the tax system becomes inefficient and unfair and more complex. It violates principles for good tax system design.

Australia’s tax system fails these tests. It also leaks revenue – quite badly.

Plugging these leaks requires increasingly complex anti-avoidance provisions and, as we have seen in Australia, sets in train an escalating battle between the taxing authorities and tax advisers, accountants and lawyers, which adds to the complexity of the system.

It is far simpler where possible to eliminate the loopholes that give rise to the revenue leakage in the first place. Yet policy makers in Australia have probably created, or allowed to persist, almost as many loopholes as they have closed.

The second message is that a core function of governments is to raise revenue to finance their activities, and to do so as effectively as possible. The taxation system should be regarded as a crucial piece of Australia’s social infrastructure whose main task is to raise revenue. Proponents of larger and smaller government should agree on the

requirement that tax revenue is needed, and should be raised as effectively as possible.

The third message is that major tax system reform is overdue in Australia, *and is worth paying for*. If an acceptable tax reform package must be revenue-negative to include *real* personal income tax cuts, then that price is worth paying.

But should any Budget surplus be used to finance tax reform? The Treasurer has argued forcefully the case for devoting the Budget surplus to retirement of public debt, which will free-up outlays on public debt interest for other uses. Taken in isolation, his case is compelling. But his case cannot be evaluated in isolation.

If I were offered the opportunity to purchase a new, broad-based, tax system that would serve Australia well through the 21st century, and the purchase price included use of, say, \$4-\$5 billion of the expected Budget surplus (which is really part of the proceeds of "tax bracket creep" anyway), I'd jump at the chance.

If necessary, I might even consider *increased borrowing* to secure tax reform, because I regard it as an investment in Australia's social infrastructure. I would expect that investment to pay handsome dividends over time in terms of a more efficient economy, greater taxpayer acceptance of a fairer tax system, and reduced overall administrative and compliance costs.

And, I suspect, the tax revenue dividend from this investment, which will be sorely needed as Australia's population ages into the mid-21st century, would return my initial investment several times over.