



# NEW RADICAL

*CENTRE*

**Mark Latham**

A century ago a French Student, Albert Metin, visited Australia to study our labour movement. As part of his research, he asked one of the Labor Members of Parliament for an outline of the party's policies. Pointing to the Ministerial frontbench, the MP replied – “my policy? – to kick those fellows out”. Metin subsequently turned his research into a book, entitled *Socialism Without Doctrine*.

This story helps to demonstrate one of the fascinating aspects of the Australian Labor Party. While always known as the party of reform and initiative in Australian politics, the ALP has also been an intensely pragmatic party. This mix of idealism and electoralism has been one of the great strengths of the modern Labor Party. It has made Labor not only a viable cause for power, but also a party capable of making policies framed in the cause of a good society.

I enjoy nothing more in a parliamentary sitting than watching the contrasting ways in which our members get about their work: some of the colleagues with time horizons rarely lifting beyond the morning newspapers; professionally working the numbers and the press gallery; their minds highly focussed on the next round of opinion polls and opinion pieces. Other members are more likely to challenge the conventional wisdom and make new policy. These are the colleagues taking a longer view – constantly reading and researching material related to the big issues now on the public agenda: globalisation, the changing nature of work, problems with the welfare state and the emerging debate about social capital and community values.

Within the cause and history of Labor, progress has never been made without conflict – the disputation, the debates, the disagreements that keep a political party alive and relevant. This is why the longstanding tension within the ALP between its pragmatists and idealists is so healthy. It forces Labor to confront the twin demands of policy reform and electoral popularity. It reflects Labor's tradition as the party of policy initiative in Australian politics – what Kim Beazley senior once described as Labor's role as a party of social attack. It also reflects the

creative tension from which Labor's success in recent decades, its domination of federal politics for a quarter of a century, has been drawn.

If Labor was solely a cause for power – a party without doctrine or principles – its passion and purpose would quickly wither. Just as much, if Labor saw its goals as external to the exercise of power, its effectiveness and relevance would be much diminished. The ALP is strong because it is committed to acting on its principles – converting doctrine into reality through the exercise of political power. We are a lively expression of the central purpose of public life – the capacity to turn good ideas into practice. And none of us, of course, would have it any other way. Indeed, this is the central reason why I wrote *Civilising Global Capital*.

### Ten challenges

Having made, in our 13 years in government, massive changes to the openness of the economy and fairness of our society, the labour movement is now being challenged by a new generation of issues. This is reflected in a range of policy questions – each testing the basic fairness and cohesiveness of our society. The ten great challenges now facing social democracy, its ideals and relevance, are these:

1. How does an old and enduring social democratic party like the ALP meet the new challenges of globalisation, with its tendency towards economic exclusion and income inequality?
2. How can nations best define their strengths and sovereignty in a world with far fewer economic boundaries – an economy in which finance, investment and even whole industries have the capacity to move seamlessly between nations?
3. How can countries remain competitive in the global economy – enjoying the many benefits of national growth and prosperity – while also countering the uneven impact of economic restructuring at a local level?
4. How should the labour movement respond to this polarisation of economic opportunity – the way in which the new labour market rewards highly skilled workers while hurting the interests of those without skills?
5. How do progressive parties address the dilemmas of fiscal crisis<sup>1</sup> – the under-resourcing of the public sector, given its difficulty in funding both social welfare and business welfare off an internationally competitive tax base?
6. How can Australia replace its old social settlement – what Gerard Henderson has described as the Federation trifecta<sup>2</sup> – with a new model of national gain sharing and social fairness built around the benefits of an open economy?

7. How can the declining legitimacy and effectiveness of the post-war welfare state be reversed – overcoming both the dilemmas of downwards envy and inter-generational poverty?
8. How can government best assist people in dealing with the permanent threat of insecurity – equipping its citizens with the skills and resources needed to take the change process more as an opportunity than a threat?
9. How should supporters of the public sector respond to the growing diversity of social values – the inevitable consequence of an information-rich society in which people increasingly resent any attempt by central government and bureaucracy to tell them what to do?
10. How can social democrats help to restore our society's sense of public mutuality and community – at a time when, more than ever, Australians are building walled housing estates and looking to answer social problems through the establishment of more prisons and more punishment?

Internationally, these issues are challenging the meaning and relevance of social democratic parties. Policies framed around the old economy and social structures have lost their effectiveness. Large slabs of left-of-centre thinking now look like an exhausted volcano. In this respect, social democracy has been a victim of its own success. By the 1970s it had achieved most of its goals for the role of government in society – primarily through the spread of Keynesian economics, passive welfare and service planning. The exhaustion of this agenda, however, produced something of a vacuum within parties of the Left.

In most nations in the 1980s this policy was filled by the deregulation of product and capital markets, plus the commercialisation of a wide range of public services. The rise of globalisation has forced nations to pursue new forms of economic advantage, often by reducing the size and scope of the public sector. Old left remedies based around the expansion of government no longer seem sustainable.

In response, new thinking, new ideas and answers are needed:

- not just for the success of social democracy
- but also, for regaining the public's trust in the quality of our democracy.

So many social problems seem permanently positioned on the public agenda: structural unemployment, income inequality, health care rationing, declining public infrastructure, street crime, youth alienation and a general breakdown in community values and public mutuality. People are abandoning old ways of thinking and old types of politics. Radical thinking and policy making have never seemed more timely. While technological progress has transformed so many aspects of society this century, the methods of government barely seem to have progressed at all. Despite talk for a decade or more of the reinvention

of government, the results have not been impressive. The choice on either side of the old ideological divide appears limited.

Globalisation and the information revolution have left parties and politicians struggling for solutions. The small government policies of the new Right have not been able to show – once the active role of the public sector is withdrawn – how individual liberty alone can answer the inequities and insecurity of a market economy. Equally, the old Left has fallen into the habit of simply advocating more money for more programs of the old kind. The choice between market freedom, with its army of the working poor in the United States, and an unreconstructed public sector, with the failings and costs of the welfare state in Western Europe, barely offers a choice at all. It simply points to the need for a third way.

### **New radical centre**

My first lessons in politics were given by my grandparents. Their view of the ALP was straightforward: to be a good Labor person was to be like Jack Lang. Their view of the political contest was also relatively simple: it represented a struggle between capital and labour – between bosses and unions. I am sure for those gathered here this evening this is a common recollection. It reflects the way in which the politics of the industrial age was framed around a clear dichotomy: capital versus equality, market forces versus state planning, liberalism versus socialism.

Now, however, the certainty and simplicity of this political contest has been lost. Just as the Industrial Revolution turned society on its head – as labour moved from farm to factory employment, as people moved from rural homes to urban lifestyles, as the nation state emerged and then dominated the way we are governed – the information age is just as thoroughly changing the nature of work, society and politics.

This has become an era of voter dealignment, a time in which party loyalties are weakening and citizens are seeking out new sources of political identity. The global mobility of investment and steady march of economic restructuring, has given rise to a political divide between economic nationalists and economic internationalists. So too, the advent of an information-rich society, has provided a more diverse set of social values and aspirations. In political terms, this represents a contrast between voters who see themselves as part of a cosmopolitan global village and those who still look inwards on insecure, working class communities. To take Australia's geography, it might be understood as Paddington versus Ipswich.

The pressing challenge for our political leaders is to respond to the way in which, more than ever, people are working and communicating globally, yet still voting locally. Globalisation and the information revolution have combined to place new pressures on life's responsibilities and sources of identity.

We have moved well past a simple binary system of politics. We have moved towards multiple points of political identity and interest. While people might still position themselves along the old Left/Right spectrum, they are now just as likely to take a position as either economic nationalists or internationalists; as conservatives or progressives in their social values; plus seek to redefine their political identity amid the widening spread of life's responsibilities.

The new radical centre seeks to overcome the inadequacies of the old politics through a process of triangulation. This means moving to the centre of the political spectrum and, most critically, lifting above and beyond the old Left/Right divide through the creation of new and radical values. Being radical is defined as having a central vision of society's structure and values, from which a range of policy methods are pursued for what they can achieve in practice. The new radical centre is more interested in what works in public policy, rather than things that necessarily fit the old ideological mould. What matters is what works.

The complexity of modern politics is dealt with through the application of universal values, rather than the fostering of sectional interests. This approach defines the future of social democracy around the values of social responsibility, incentives, interdependence, and devolution. Parties like Labor – with an interest in the inclusiveness of our society – cannot afford to have people taking a boutique view of government: only supporting those bits that directly serve their self-interest. The values of the new radical centre break free from the politics of coalition-building by appealing to the interests and concerns of citizens held in common. The guiding principle of the new radical centre is to hold together the cohesiveness and fairness of society through new expressions of personal and collective responsibility. It rejects the methods of both the old Left and the new Right: – the notion of a nanny state, within which government is responsible for the provision of welfare without the reciprocation of responsibility; plus libertarian arguments favouring individual freedoms and responsibility without the collective role and responsibilities of the public sector.

It gives to government a different role – acting as a fulcrum in the exercise of personal and collective responsibilities. The new radical centre aims to marry rights with responsibilities; creating new opportunities in tandem with new personal obligations. Only by these methods can the citizenry – as individuals and a society – be guaranteed a basic threshold of social and economic security.

During this era of globalisation and insecurity, each of us need to do more to advance our own interests – to study harder, to prepare and save more effectively for an uncertain future, to work smarter, to develop the competitive skills needed for job security in an open economy. But just as much, we also need to do more together – to look out for

each other, to aid those who are struggling to help themselves, to support each other in the values and interests we share as a society.

The new radical centre is best understood as a political assertion of this heightened sense of public responsibility – not just in the relationship between citizens and government, but also between citizens and society. It gives to the public sector two core functions: creating the opportunities and incentives needed to combat insecurity; plus helping to develop the skills and effective freedom people require to realise their life's potential. In this fashion, all citizens are given a stake in society, with strong incentives and clear obligations to use their entitlements well.

### **Triangulation in practice**

I now offer some examples of how the new radical centre uses the process of triangulation.

1. A starting point lies in a new understanding of the purpose of social equity. Whereas the old Left came to see questions of equality in terms of material standards of living and the new Right continues to focus on an equality of social freedoms and liberty, the new radical centre has a different objective. It seeks to respond to the new politics with a more sophisticated approach to the meaning of social fairness. This is expressed through the goals of "social capability" – the complex arrangement of material needs, skills and lifestyle interests which gives each citizen their freedom to achieve in society. The purpose of government is not to mandate or engineer a particular type of equality but rather, interact with its citizens in a way that makes social competence and participation possible. The public sector (state and non-state) need to set a platform of resources and skills upon which the benefits of active citizenship might be based.<sup>3</sup>
2. Whereas the old Left has always seen government as the answer to society's problems and the new Right has always seen government as the enemy, the new radical centre seeks to break this sterile debate about the size of the government. It is not interested so much in bigger or smaller government, but in re-examining the type and quality of the government interventions needed in a post-industrialised society.
3. Whereas the old Left sees the struggle for economic sovereignty in terms of industry subsidies and protection and the new Right in terms of industry deregulation and lower costs, the new radical centre believes that the people of the nation state have become its most important and enduring asset. Nations now face a strategic choice: whether to subsidise the profits of footloose capital or subsidise the education of their people. My book argues for the latter.

It is difficult to understand how a small economy like Australia can outbid the big European and North American economies with industry subsidies and tax breaks. The only effective way for Australia to

secure advantages in the chase for long term investment and jobs is to foster a well-educated population and labour force. From a Labor perspective, the problem with bidding strategies is that they place responsibility for corporate failures on the public sector – that is, the reason why companies are said to fail is that they haven't received enough subsidies and protection from government. In a nation like ours – with its risk-averse culture of corporate management – such a perception is entirely unhelpful.

Nonetheless, if industry subsidies are to be paid, then it should be on the basis of reciprocal responsibility – with companies having to pay back their public money if they subsequently fall short of agreed targets for investment, employment and an acceptable code of corporate governance. The principles of responsibility in our society should apply no less thoroughly to business welfare than social welfare.

4. The old Left has always argued for more recurrent spending as a way of boosting economic growth, and the new Right has focused on the level of public sector savings. The new radical centre takes a different approach. It is not the deficit in consumption or savings, but a third deficit – a shortfall in a nation's investments in research and technological enhancement – which is most likely to restrain its long run rate of economic growth.

It is argued – within these new growth theories<sup>4</sup> – that as no single enterprise can capture the full gains of knowledge enhancement, a market system inevitably fails to invest to the full capacity and economic benefits of new forms of technology. Thus the education and research investments of government have become a key part of a nation's economic success.

5. Whereas the old Left casts its employment policies in terms of saving jobs in old industries and the new Right in terms of labour market deregulation, the new radical centre advocates policies that help to prepare people for the creation of new jobs. The answer to economic problems does not lie in stopping trade or winding back technological change. Rather, it lies in helping people adjust to new forms of work in new industries. Indeed, if people aren't prepared for new jobs, they will cling more firmly to old ones, making the problem of employment insecurity even worse. In a world of permanent change, preparation for change is the only answer.

It is thought that a decade from now a large number of school leavers are likely to seek work in jobs not yet conceived, using technologies not yet invented.<sup>5</sup> Australians can only prepare themselves for these employment opportunities through the benefits of lifelong learning. To give an old political term new meaning: we must socialise the public's access to knowledge and learning. We must ensure that our information-rich society also provides for an education-rich population.

6. Whereas in labour market policy the old Left still regards the level of aggregate demand as the key variable and the new Right focuses entirely on wage costs, the new radical centre adopts a spatial framework. That is, it regards regions and even neighbourhoods as the key unit of analysis in understanding the new labour market. The uneven geography of skill and income levels in the new economy has given government a key role in filling the gaps in employment left by the market system. This requires improved public investments in infrastructure and civil sector employment on a regional and neighbourhood scale.
7. Whereas the old Left supports wage increases for all workers and the new Right wage increases for none, the new radical centre seeks to use wages policy to provide rewards and incentives for work. The best way of eliminating poverty traps in the new labour market is to target wage increases to the pockets of the lowest paid workers. This is why an indexed living wage system in Australia is so important – it avoids the emergence of a new generation of the working poor by giving workers on minimum rates a guaranteed share of the nation's economic growth.

### **Welfare reform**

The new radical centre also takes a different approach to the question of welfare reform. Despite massive changes to society and its economy over the past 30 years, the political system is still trying to work out how to reform the relationship between the welfare state and its citizens. Changes to the structure of welfare, at best, have been incremental, even though the evidence everywhere shows that old systems of open-ended transfer payments and service provision have failed to break the cycle of long term poverty. So much of the policy making process appears gridlocked – not just by a paucity of ideas but the unwillingness of politicians to upset the entitlements and expectations of those in the electorate who have grown dependent on welfarism. Public policy requires a new direction in welfare reform.

This is where the new radical centre has a critical role to play – particularly in showing how welfare answers will not be found in a negative view of human behaviour. It explicitly rejects the age-old view of libertarian economics: that welfare recipients become lazy and manipulative once presented with the comfort of income support. The problem with this analysis is that it positions welfare recipients solely within a framework of rational economic decision making. It maintains that people become dependent on public income support because they see this is a rational way of maximising their economic welfare.

Yet the evidence about long term poverty points to the way in which disadvantaged people – having lost the skills and habits of regular work and rewarding social contact – are more likely to engage in perverse

decisions about their well-being. Whenever, for instance, I visit the public housing estates in my electorate in south-west Sydney, it strikes me as totally irrational for so many citizens to have to endure high rates of unemployment, family breakdown, drug dependency and street crime.

It is absurd to believe that welfare recipients have rationally manipulated the welfare system when, in cases of entrenched poverty, this has forced people to live without any satisfying degree of economic or social participation. In truth, welfare analysis needs to reach well beyond the parameters of rational economic man. It needs to examine other aspects of human behaviour which might lead to a more productive agenda for welfare reform.

A starting point is to understand how the human condition has been set apart from the animal world by a yearning for recognition – the acknowledgment that each of our lives holds worth and value for others. As Francis Fukuyama has argued in *The End of History and the Last Man* (1992):

Human beings, like animals, have natural needs and desires for objects outside themselves such as food, drink, shelter and, above all, the preservation of their own bodies . . . but in addition, human beings seek recognition of their own worth. The propensity to invest the self with a certain value and to demand recognition for that value, is what in today's popular language we would call self-esteem. . . . It is like an innate human sense of justice.<sup>6</sup>

This concept of recognition passes a long way towards a comprehensive understanding of the relationship between citizens and society. It explains why many aspects of economic activity are outside the bounds of rationality, such as the accumulation of income and assets past the capacity of any individual to ever consume such wealth.

It helps to explain the importance of collective arrangements in the workplace – the social benefits that come from a sense of belonging and co-operation during work hours. Individual employment contracts – with their emphasis on workplace competition and rivalry – are a barrier to the spread of social recognition and self-esteem.

It explains how teenage pregnancies are more likely motivated by a yearning for recognition – the unique love and status arising from the mother-child relationship – than attempts to qualify for single parent welfare benefits. Most of all, the concept of recognition helps to explain the tragedy of inter-generational unemployment – how the idleness and educational disadvantages of one generation can become a role model for the next.

From this perspective, one can appreciate the shortcomings of both sides of politics on the question of welfare reform. The new Right has erred in believing that welfare solutions can only be found outside the welfare state: in labour market efficiency and robust individualism. Rational incentives only succeed if people see a link between their own circumstances and the incentives system.

Policy reform needs to focus on the ways in which the public sector might aid the spread of social recognition. Indeed, there can only be two purposes to the public provision of welfare: to move people back into work, plus develop their skills and status. This approach gives government an important role on both sides of the new labour market – strengthening the demand for work through its role as an employer of last resort at a local level while, on the supply side, embracing the value of lifelong learning. Welfare needs to be equated with well-being – and well-being in our society comes primarily from employment and education.

### Conclusion

This decade some encouraging signs have emerged that social democrats remain willing to adapt their thinking and policies to new economic and social circumstances. Leaders such as Blair and Clinton have declared their willingness to “think the unthinkable” about the future of the welfare state. Some of their think tanks have taken up this challenge, with bold attempts to rediscover the high art of problem solving in public life. There is an emerging movement for political parties to abandon old ideologies and think radically about the organisation of society. Indeed, the political boundaries themselves appear to be blurring. Within the old party system the struggle for political dominance has shifted to a contest between the radicals and conservatives, much more than old debates along the Left/Right spectrum. This is one of the reasons why the values and policies of the new radical centre have become so important.

Australia, of course, should not be left behind in this process of policy reform. At the beginning of this century our nation earned a reputation as a social laboratory – a place where reform and policy innovation were taken as a political standard. This ethos was subsequently reflected in the reforms of the Whitlam, Hawke and Keating Governments. Unhappily, it has all but disappeared since the time of the last election. Who now would look to Australia – led by a Howard Government – for new thinking in public policy and the reinvention of government?

Indeed, to watch John Howard, Tim Fischer and Peter Costello in parliament each day is to be reminded of Donald Horne’s haunting depiction of Australia as a lucky country run by second-rate people. Australia deserves better than a second-rate government running a second-rate policy agenda.

A large gap has emerged between the skills required for effective policy making in public life and the skills needed to successfully convey information. Whereas, in recent decades, political issues have become more complex and social problems more entrenched, the popular method of political communication has become more temporary and artificial. In our electronic democracy, politicians are now encouraged

to communicate through media stunting and seven-second TV grabs. This methodology, however, is not likely to resolve any of the policy challenges posed by globalisation and the information revolution.

If Australia is to once more be a world leader in the political debate, our public institutions will need to recapture some of the habits of public intellectualism. Ideas should be allowed to develop outside the pressures of the party system for conformity. Debates should be undertaken in a manner more considered and substantial than the infotainment of the electronic media. To meet these goals, original research and the written word have become critical. It is healthy in our democracy for elected representatives to reassess their ideals from first principles, and then commit their ideas to paper. More than healthy, it should be taken as a common expectation for the way in which they conduct their work.

## Endnotes

1. Dick Morris in his great book, *Behind the Oval Office*, (Random House, New York, 1997) gives a fine account of this dilemma:  
Bill Clinton was always puzzled by the public's appetite for government to help while, at the same time, claiming to want less government. One evening at a strategy meeting he told us about a "speech" he planned to give offering assistance to a state after a particularly bad storm. Grinning, he read his statement:  
My fellow Americans. I know how much damage and devastation you have suffered as a result of the recent storms in your state. I know that many of you have lost your homes or your businesses. There has even been some loss of life. Everything in me cries out for giving you the most assistance I can offer in helping you to rebuild your lives. But I know how you vote, and I know how you think. I respect your opinions. I know that you believe that government, particularly at the Federal level, cannot help people and always just gets in the way. I know that you believe that the less government the better, and I don't want to ask you to violate your principles at a time like this. You want government to leave you alone, to stay out of your lives. So tonight I say to you, Good-bye and good luck."
2. See Gerard Henderson, *Australian Answers*, (Random House, Sydney, 1990). The Federation trifecta refers to the policies of White Australia, tariff protection and centralised wage fixing enacted by the Federal Parliament in the first decade of this century.
3. For a thorough explanation of the concept of social capability, see Amartya Sen, *Inequality Reexamined*, (Clarendon Press, Oxford, 1992).
4. An excellent summary of the new growth theories can be found in Steve Dowrick, "A Review of New Theories and Evidence on Economic Growth", ANU Discussion Paper No. 275, October 1992.
5. Sourced from material prepared by the Australian Education Union.
6. Francis Fukuyama, *The End of History and the Last Man*, (Hamish Hamilton, London, 1992), page xvi.



# WHAT WOMEN

## *HAVE DONE TO WESTMINSTER*

Linda McDougall

When Tony Blair's Labour Party won the 1997 British election so many women entered the House of Commons you might have thought the population of Britain had suddenly decided they wanted women MPs. It wasn't like that at all.

Before the last election there were only 60 women members of parliament out of 400-600. As you know the Conservatives lost a massive number of seats and that included some of their senior women. The number of Conservative women MPs went down from 20 to 13 at the last election. And although the number of Liberal Democrat MPs doubled, their number of women also went down - from three to two. In two parties, at least, the number of women declined. There are three women who are Scottish Nationalists.

The huge change that took place was in the number of Labour women MPs. Their numbers went up from 38 to 101. And the reason that happened was because the British Labour Party had positive discrimination in favour of women in what were called the key seats - half the key seats which were winnable seats. In half the winnable seats you could only choose a woman. It took a long time for that to happen. It was a policy passed at a Labour Party conference in the early 1990s when John Smith was still a leader of the party. It was tied up with the one-member-one-vote phenomenon which was a sort of democratising of the Labor Party.

When the one member-one vote came up, the all-women short list policy was slipped in. It was knitted in with the idea that at the next general election, in key winnable seats, only women would be given opportunities to contest half of those seats. And that's exactly what happened. The policy went on uncontested, but with much grumbling, for some time. And indeed, a lot of the women I interviewed at Westminster, after their win in 1997, were terribly unhappy. You will probably find that there were more women unhappy at the idea of women having special privileges than those who were happy. But there was a group of determined women inside the Labour Party. Clare Short

you might have heard of, Angela Eagle who is now an environment minister, and women in the trade unions were the people who put the idea of all-women short lists. They were the people who pushed that policy in the Labour Party.

In several seats there were bitterly fought arguments and in one of the seats, Keighley, there was a huge row and a man actually took the Labour Party to court about it. He won. So the Labour Party was faced with a dilemma. They had selected 80 candidates. They were planning to select more but they were in a situation where they would have expensive court cases if they went on. It's important to say also that there was really no heart for this at the top of the Labour Party. None of the men at the top of the Labour Party were terribly keen on the policy – although they had not probably said so publicly. But because it had gone through the party conference there was nothing that they could do. So, in the wake of the tribunal's decision against all women short lists, the Labour Party decided to abandon the policy. With such a large number of women already in winnable seats it was a case of quitting while ahead.

As you know, there was a huge landslide. Labour won and the number of women increased enormously. In fact if Labour had won by a smaller majority there would have been a higher percentage of women because you can see quite clearly that the women were in the winnable seats for the very first time. In the less winnable seats which Labour won there were more male candidates than female candidates.

The first thing that happened was that the change to the government benches was absolutely obvious. Instead of row upon row of grey suited men with an odd female person here and there, you suddenly had a great blossoming. I think it is fair to say it was the most noticeable thing that happened in the last election. Huge attention was given to it. *The Daily Mail* which is a tabloid British newspaper, and very popular, had a double page spread of Tony Blair standing in the middle of all the women MPs. It was titled "Blair's Babes". And the term "Blair's Babes" has stuck to this day. Everyone refers to the women as "Blair's Babes".

There was also endless fashion commentary. Page after page of commentary followed, about how these women were dressed, how they were to smarten up, how they had dreadful, cheap shoes, hats. This went on for weeks. Some women were pursued by newspapers. A woman called Helen Brinton was pursued by the *Guardian* newspaper for some weeks. I think seventeen times. Dismissive and rude articles appeared about her in their diary column and she found it very difficult indeed. But what everyone felt was that this was, at long last, a critical mass of women.

As things have turned out I'm not so sure that that was true. I too thought that with one in four Labour MPs being female, and one in

five members in the House of Commons, this must make an enormous difference. But looking back over this first year, it would be hard to say that there was any real appreciable difference which had been made by those women.

The reason might well be that it just simply isn't enough. If you've got a quarter you expect too much of them. If you've got half you expect all MPs to behave in the same way. But at the moment, our expectations of those women are probably too high. The other thing that happened was that Tony Blair did stick to his promises about women in government and so we have got a very large number of women indeed who are now ministers. There are 15 members of the government and five cabinet ministers are women. And *the* cabinet minister who has been the greatest success is Mo Mowlam, Secretary for Northern Ireland. I happen to think that she's probably the best example of bringing her womanliness, if you like, to her work because her approach to Northern Ireland has been fresh and different. She seems to be incredibly brave and whereas many women MPs in the past have taken up a masculine kind of way of doing things, which is very tempting for all women in big positions, Mo Mowlam hasn't done that. Her very femaleness has been attractive and has perhaps been one of the things that mattered in Northern Ireland.

But the least popular cabinet minister is also a woman and there may well be a reason for this. The least popular cabinet minister is Harriett Harmon who is the Minister of Social Security. I'm sure you probably have heard why she is unpopular. This is not a very socialist government. It has tried from the start to point out, across the board, that women no longer will be able to rely on men as far as pensions are concerned, as far as bringing up their children is concerned. And there has been a realisation that it is everyone for themselves. That has particularly involved what we call the single parent benefit. There was a benefit for people who were at home bringing up their children. The Blair Government has very solidly come up with the idea that women would be happier if they were back at work and earning some money towards bringing up their children.

That's probably the right thing, but it was handled very badly as far as public relations was concerned. Harriet Harmon produced the first split between New Labour, which doesn't seem very Labour at all, and Old Labour which is increasingly tending to be old in age as well as everything else. There is quite a split mainly because Blair hasn't any older people in his government. Only Glenda Jackson who is 60. It's a very young government. Harriet Harmon was asked to front up for the split. She was forced by the Treasury and put in a very difficult position. So you've got the most popular cabinet minister and the most unpopular cabinet minister and they are both women. There is also

Ann Taylor who is the Lord President of the Council but is in charge of the modernisation of the House of Commons.

When we interviewed the women MPs, for *Westminster Women*, the most commonly said thing by all of them was how dreadful Westminster was. How inefficient, how old fashioned, how so many traditions had to be swept away. There was lots of talk about places like Australia and Canada and other modern parliaments. In Britain people still vote in parliament by walking through the divisions. Traditionally those divisions come at the end of the evening and there is an awful lot of hanging about all evening to vote at 10 o'clock. All the new women, without exception, said this practice had to go. That was the first thing we heard. They all wanted a change.

At the end of the first year there has been (although there was a modernisation committee which started immediately) hardly any change at all. There have been a few changes. No longer will MPs have to put on a top hat when they address a point of order during a division. But the actual idea of having electronic voting or a more friendly chamber, has not ensued. It's true to say that none of the new women realised just how difficult it is to try and change Westminster traditions and it will take quite some time. A lot of the women are quite shocked about that because they really did feel that they could come in there and change things.

I myself believe that the system is very difficult. It is old fashioned. You are constantly weighing up what's there against the tourist industry. People in red beefeater jackets. What happens at Westminster seems to be an important part of the tourist industry, although it does not seem a very sensible way for your MPs to go to work.

Let me just talk about one more minister. There are 15 altogether. The final one of the 15 is Joan Ruddock. She was appointed Minister for Women under Harriet Harmon some weeks after the rest of the ministers were appointed and after some pressure on her part when she felt she had been left out. Blair made what I thought was perhaps the most appalling error as far as women were concerned. He said, "She can be the Minister for Women but we have no money left to pay her." So Joan Ruddock is the only unpaid minister in the government. And that sends out all the wrong signals. The only unpaid minister is a woman. It hasn't been very successful and she seems unhappy. I don't think there is any clear role for a Minister for Women. The covenant women's committee has only met twice in the whole of the year. So I have to say that although there has been a great increase in the number of women and individual ministers are doing good work, a change of feeling simply hasn't happened. It may do, but my suspicion is that it probably won't.

It's fair to say that I don't think Tony Blair is terribly happy about women. He is a blokish kind of bloke. I went to an all-woman party at

the Labour Party conference which he addressed and he seemed quite nervous about how he was going to treat women en masse. He certainly won't be putting it up as one of the flags of this government that they've made great steps forward as far as women are concerned. Women are accepted by the Blair government for being disciplined, well behaved and unlikely to make trouble. I can see no signs myself that any of the new women have in any way stood out yet. I suppose if you've got a huge majority like this, it's important to have people well disciplined.

But there has been, in addition to "Blair's babes", a lot of talk about "Babes on Message" because the Labour Party has now issued all its MPs with pagers. And not only does it call them to divisions but it also issues regular statements on what MPs should say and what they should do publicly. There has been a great move towards the centralisation of the party. But there's been no clearly outstanding women who've got up and said that they objected to any of this. Everybody is being well disciplined and well behaved. Blair himself was asked about this on the first anniversary. And he said, "Oh well you see it's because they are all young and they're all in the same age group as me and they're all disciplined members of the party and this is the way we want to go on." This will be the main area of irritation I think.

As the next year comes along people will want women to do something more. People's expectations have been raised. I know it's unfair. There are MPs like my husband, who's one of the over-60s, who complain a lot. My husband is a backbencher and he's one of the people who's anti-Europe and anti-Monetary Union. You find that most of the MPs who stand up and say things about the government are in that older age group. But it's those people have also started saying things about the women. It was interesting when the business of Harriett Harmon and the single parent benefit came along. There were a few rebels who voted against the government. None of the new women did. Only a handful of older women in the 50s to 60s group.

And the men were critical of the women. They said, "What are these women here for? It's their job to complain about this because they're women MPs and this is a women's issue." And I find that quite puzzling and quite infuriating because why should we expect women to do two things - to be representatives of their constituents but also to have a second role where they are representatives of women as well. Until we get more women MPs that could be a problem. It has been a problem all this year because men complain about the women, because they see them as not representing their women constituents fairly. Somehow male MPs seem to think that the women should do more.

The other thing that's changed enormously under this leadership is that the party has decided that MPs will have something called "constituency weeks". One week in every four, new MPs are sent off to their

constituencies and they don't go to Westminster at all. Because of such a big majority they don't need them there to vote. Instead they are sent off and expected to work for Labour's next victory in the constituencies. The women all say they are exhausted. For instance they've been told they must talk to 26,000 constituents before the next election. People are given instructions to visit so many a week. They are even given scripts for ringing people up and saying, "Hello I'm your friendly MP", etc, etc.

For a lot of people who have just come into this job, politics has changed. Quite a lot of these women are not professional politicians. They've been school teachers, engineers, whatever. Being an MP is quite a nerve racking job and new women MPs are only too eager to follow the rules that they've been given. I haven't found one who isn't desperate to move up the career ladder. Everyone wants to be a minister. So for the moment, until it becomes obvious to some that they may not ever be ministers, everyone is pretty keen on being well disciplined and well behaved.

The other thing is that we have backbench select committees which examine and investigate issues. Those who are not ministers get on to those backbench committees. Sixty per cent of the new women MPs are on backbench committees whereas only 15 per cent of the new men are. So the women are being kept absolutely fully occupied. There's no doubt about that at all.

There are other things the women have done, which you'd be traditionally interested in. The first person to have a baby was an MP called Ruth Kelly who was 29. She gave her maiden speech and four weeks after her maiden speech she produced a son. She is now pregnant again and about to produce her second child. Four other women MPs are also pregnant and about to have babies in July. Two of the women who are on the cover of *Westminster Women* are included in that. A lot of normal family life is going on. But we've got a situation which is unique. In the case of both those two women on the cover of the book, the husbands are residents in the constituency and are going to look after the children while the mothers go to Westminster during the week and come home to the children at the weekend. Several MPs are doing that. It's a completely new way of doing things.

The other thing that is absolutely new as far as Westminster is concerned, is that we have our very first unmarried MPs who are living with people - people who say they've got partners rather than husbands. And that is absolutely unique. There was nothing like that at all before this last election. If someone had said they were living with someone, that would have been quite sensational. But now there are several MPs who have partners, who are living together. And this now passes. It has become accepted. Women have made a difference there. Angela Eagle, who is the Environment Minister and who is one of the

people responsible for fighting so hard for all-women short lists, announced some weeks after she'd been made the Environment Minister that she is gay and was planning to live with her partner. Now that was very interesting for all of us to see what would happen. There was an initial huge response in the press and what you might imagine, "Lesbian Minister" or "Minister announces she's Lesbian" etc. But by and large it seems to have faded away and people have become quite amused by that. We now have several, male and female, MPs who are openly gay.

Angela Eagle herself said, in one of the *Westminster Women* programs, "It's as if in a few months things have changed by years really." We were old fashioned. Very old fashioned. You know the British reputation, strange sexual goings-on by most MPs, and things that were entirely unacceptable six months ago. Now no one would bat an eyelid because this government has supported its MPs. The Foreign Secretary Robin Cook's situation was obviously different because it was a racy story and it was more about his personality than about anything else. And also he persisted in making the story grow. So I think what has happened is that the so-called critical mass of women have meant that in one way we've become socially up to date and more modern. What I don't think has happened is that women, as women, have particularly added anything to Westminster so far.

Let me now tell you what's about to happen in the future. You all know, I'm sure, that we are going to have a Scottish assembly and a Welsh assembly. The Labour Party has, much to everyone's surprise, fought and won a system where, in both Scotland and Wales, seats will be "twinned" from the beginning. All seats will be divided into groups of two and there will have to be one male candidate and one female candidate. So the Labour Party at least will start off the new Scottish and Welsh Assemblies with a 50/50 breakdown of men and women. That's terrific because that's going to be the right way forward if you're starting something new.

The real problems lie in the Conservative Party which is obviously the main opposition party. From talking to people inside the Conservative Party there is a real dilemma. What do they do? On one side of the chamber you've got all these women sitting there, on the other side hardly any at all. The Conservative women who are there are terrific. Their most senior woman politician is Gillian Shepherd. She is extremely worried about the situation because they really cannot go into the next election without improving the situation as far as women are concerned. But there is an absolute rigidity in the Conservative Party. No one in the Conservative Party wants a situation where women are given a leg up or some sort of help. In spite of the fact that events around Europe have proved that the only way you can get the situation moving is to give women some sort of help.

There was all sorts of outcry about what happened in the last Westminster election. Women and men said that it was unfair. The Conservative women tried to call the Labour women "quota" women. But one year on that has been forgotten. There is real delight from all the population in seeing fairer and better representation of the voters out on the streets. If there are 50/50 men and women in the street it seems ridiculous, in 1998, that there shouldn't be 50/50 men and women in government as well. So the Conservative Party has got a real problem although they are trying to address it.

The Conservatives are thinking in terms of giving classes in choosing MPs to constituency parties. They say, probably quite truthfully, that women's worst enemies are often women and that within the Conservative Party it's often women who are most resistant to having female MPs. Women who feel they will be safer and stronger if they have a man to represent them. I simply do not know what the Conservative Party is going to do about that. There are lots of offers, from all the feminist organisations and more, to help them out because everyone realises how strange parliament looks. On one side you've got all this colour and on the other side it's all men.

The Liberal Democrats are the third party and have exactly the same problem because they too are against the idea of giving people any sort of positive discrimination. That's the great stumbling block. Only socialist parties around the world have done it. It happened in Germany. It happened in Scandinavian countries. And it's happened now in Britain. It's been all for the good. Still, the number of women we've got at Westminster is not yet a critical mass. I will be very surprised if anything much which improves the lot of women, happens in this parliament. Women have got to be absorbed into the parliament to such a degree that it almost passes without comment. People have to stop thinking of women as a group and expecting things of them. Women have to be accepted in the same way as the men. But until we work out a way of doing something about the Conservative Party I don't quite see how that is going to happen.

And finally there is unlikely to be any increase in the number of Labour women MPs at Westminster for a decade. Undoubtedly, however well they do, Labour is going to lose seats next time. There was also a huge changeover at the last election. The average age of the parliament dropped, many people left and MPs are now younger. As a result there are not going to be so many people standing down. So even if women were selected in half the seats next time there wouldn't be that much change in the Labour Party. So there's unlikely to be any more Labour women MPs. There might even be a few less.

It could be that the situation stagnates and comes to be regarded as a great event that happened in 1997. Maybe the number of women will steady or drop off. It's all up to the Tories really. To carry this one

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through then it's got to happen on the other side of the house and they know that. They are the ones who now have got to talk about this and carry the can. But I think there is a general realisation, out there amongst ordinary people, that more women is a good thing. I don't think anyone now – even though people might be cross about the way it happened – who would say, "Let's go back having more men MPs."



Photo - David Karimidis

*Laurens Brinkhorst*

Laurens Jan Brinkhorst was elected to the European Parliament in June 1994 and sits with the European Liberal and Democratic group. He was general rapporteur for the European Budget in 1997 and sits in the budget - institutional - and civil liberties committee. Laurens Brinkhorst addressed The Sydney Institute on Wednesday 6 May 1998.

# EUROPEAN

## *MONETARY UNION – AN UPDATE*

**Laurens Brinkhorst**

I am very honoured to be invited to speak at the Sydney Institute for this conference on Australia unlimited. During the short time I've been here I have had a very condensed view of Australia's expectations and problems while at the same time sensing the upbeat mood about Australia's future. That future – resting on the potential of a multicultural population – is geared towards realising Australia's role in the Asian-Pacific. While I recognise the exciting potential of Australia in this region, my speech tonight will focus on another part of the world which is also undergoing a momentous transformation – Europe. It was an important part of Australia's past and it can also be an important part of Australia's future. I will therefore give you my perception of the European single currency process and of certain implications it will have for Australia.

The political background to Economic and Monetary Union (EMU) is often understated. Yet the European integration process has, from the beginning, had a very strong political dimension. This might not be evident if you rely solely on the British press to give you a feel of what's happening in Europe. The majority of the British newspapers tend to be dismissive or virulently opposed to European integration. But this is not the majority opinion in Europe and it does not adequately reflect the change in mentality that is gradually occurring under the new Labour government.

It all boils down to history shared and divergent experiences. Britain is the only country in Western Europe that was not occupied during the war. Its sovereignty remained intact. This explains the divide in memory between the British and the other European countries. Other European countries have had the humbling experience of occupation. Others still have been stained by the act of starting the war and committing the crimes against humanity which are known to us all. For these European countries, the need to ensure that future generations would never experience such a war again was the main reason for engaging in this unprecedented political venture of integrating Europe.

Britain therefore remained aloof. When Britain did join fifteen years later, pulled in by the sheer potential of European integration, it insisted on stressing the economic dimension. Generations of British politicians have visited Australia explaining Europe in terms of trade (or rather in terms of an agricultural trade block), never explaining its political significance, never extolling the collective values that underlie the political vision. For Europe is more than an economic affair, it is about democracy, equal and human rights, economic and social solidarity, balanced and sustainable development, multicultural diversity and tolerance. In short, it is also about a certain societal vision.

Given the political background of European integration, why did we choose the economic road? In the beginning, the vision underlying European integration – the need to ensure that European countries would never go to war again – was to be embodied in a European political community reinforced by a European defence community (EDC). What the founding fathers were envisaging was a transfer of decision-making from the national to the European level in particular policy fields and a common army in order to make it physically impossible for European countries to go to war against each other. Nothing like this has ever been tried before. This ambitious plan foundered in 1954 when the French National Assembly got cold feet and refused to ratify the EDC agreement.

Instead of a top-down approach, the original six decided to try the gradualist approach based on the real benefits of economic integration which would spill over into other fields. The merging of economic interests through the establishment of a common market would create what the Schuman<sup>1</sup> declaration called “solidarité de fait” – factual solidarity. This occurred during the 1960s. But then came the Vietnam period. The Americans were running high deficits. John Connolly, a former Democratic governor who had become President Nixon’s Secretary for the Treasury ended the fixed dollar/gold parity. When criticised by the Europeans for the total lack of consultation, he summed up the relations between the US and the Europeans in what has become a famous comment: “It’s our dollar and it’s your problem.”

For some European policy-makers this was a determining moment: They did not want their affairs to be determined by someone who said “it’s our dollar and your problem”. What had always been conceived in theoretical terms, namely a single currency for a single market, became a practical option. The constraints that America was imposing on the rest of the world focussed the Europeans on the issue of monetary and further economic integration. The unravelling of the Bretton Woods system under American (budgetary) over-extension provided the incentive for the Member States of the then European Economic Community to bring their floating exchange rates together. The plan Werner, after the then Luxembourg Prime Minister, was

launched. Economic and Monetary Union has therefore been in the making since the 1970s.

Unfortunately, the oil price hikes and the ensuing rampant inflation threw the whole process off track and ushered in a period of what is referred to as Eurosclerosis. Europe was losing competitiveness and jobs. Member states reverted to inward-looking, classical Keynesian policies, pumping money into the economy to alleviate hardship. I believe Australia went through the same process under Gough Whitlam.

Under these difficult circumstances, a fresh start was made with monetary union in 1979 with the creation of the European Monetary System (EMS), intended as a "zone of monetary stability" in Europe. It featured a European Currency Unit based on a basket of national currencies, plus an exchange rate mechanism to minimise fluctuation between them. The system brought relative stability to the participating countries as long as efforts in getting economic policy objectives to converge, particularly on the fight against inflation, were sustained and credible.

The turning point came under the stewardship of Jacques Delors, President of the European Commission – the executive body of the European Community – and a great European. He pushed the idea of a single market – later embodied in the Single European Act of 1986 – which was to give new impetus to the European integration process. Even Margaret Thatcher deemed the project significant enough to renounce her right of veto. In retrospect it has been her historical although unwanted contribution to European integration. The remaining obstacles to the free movement of goods, services, capital and people could thus be removed on the basis of majority voting. Gradually however, it became clear that Europe would not be able to reap the full benefits of the single market without a single currency. Member States realised that they would have to go one step further: strive for the convergence of their economies on the basis of sound economic fundamentals and introduce a single currency.

The fall of the Berlin Wall changed the geopolitics of Europe altogether. With the prospect of German reunification, Economic and Monetary Union acquired a new significance. The twin objectives of political union and economic and monetary union as embodied in the Maastricht Treaty of 1991 had to provide the framework within which to contain and accommodate the new, more powerful Germany. Deepening integration was also necessary with the prospect of an eventual enlargement to the East. What would be the point of taking in central and eastern European countries if all that had been built during the last five decades would be put at risk?

So much for the political dimension of EMU. What is the state of play now and what are its implications for Australia?

During the last years, economic and monetary policy across Europe has been driven by the desire to meet the convergence criteria laid down in the Treaty of Maastricht. Participation in EMU depends on meeting certain nominal targets set for price stability, exchange-rate stability, long term nominal interest rates and budgetary discipline (public debt and public deficit). Although the reference values may be arbitrary, they point towards sound economic fundamentals. The alternative would be to throw away the achievements resulting from disciplined monetary policies over the last decade or to accept continued high real interest rates, which reduce the viability of business investments and thereby the creation of jobs.

Countries taking part in the single currency must produce sustainable results for all the criteria. The no-bail out clause of the Treaty which precludes the EU or a Member State being liable for the national debt of another Member State was reinforced by the Stability and Growth Pact adopted by the European Council, made up of the Heads of State and of Government, at their summit meeting in Dublin in December 1997. This Pact will guarantee budgetary discipline amongst the members of the single currency using a system of multilateral surveillance and sanctions if targets are not met.

On 2 May 1998, the European Council decided on the basis of an examination of the track records of the Member States by the European Commission and the European Monetary Institute that eleven of the fifteen would revert to a single currency on the first of January 1999. This momentous decision means that the European Central Bank, under leadership of the Dutchman Wim Duisenberg, will from the first of January 1999 onwards conduct monetary policy in complete independence vis-à-vis national governments on behalf of these national governments. The participating states are Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland.

The world of tomorrow needs more stability in economic and financial terms. There is something unnatural about a currency which accounts for approximately 20 per cent of world trade and world GNP but for 60 per cent of the world's reserves. The Euro will contribute to stabilising and strengthening the international exchange rate system. Not just because it will impose discipline on the European countries but also, for instance, on the United States which for many, many years has neglected the effect of the value of the dollar on other international traders.

EMU will lead to a reduction in hedging costs at the European and international level. The majority of trade between the EU and third countries is to date transacted in dollars. Especially in the case of long term contracts, the chronic instability of the dollar results in high hedging costs. If the Euro gains acceptance as a means of payment for trans-

actions with third countries, a large proportion of the hedging costs can also be saved in non-EU trade.

The economic strength of the Euro bloc should, in the medium term, turn the Euro into one of the most important exchange and reserve currencies. A large, uniform currency area can absorb the turbulence on the international currency markets more effectively. The elimination of currency speculation within the EU will also have stabilising effects on the worldwide monetary system.

What are the reasons the move to EMU is sustainable? Firstly, as indicated, we have reached major convergence of our economies and instruments are in place to further promote convergence. Secondly, we have put into place mechanisms for an independent central bank which cannot take any instructions from any government. This was necessary for the Germans to agree to give up the Deutschmark. The Stability and Growth Pact reasserts the political commitment to continue sound economic and financial policies actually written down in law. And thirdly, financial sanctions can be imposed after surveillance which make European politics internal politics. These are very important elements to bear in mind and are why I have full confidence that we will actually succeed. In fact, the financial markets since last year have belied the Euro-sceptics and Euro-cynics.

What does this mean in particular for Australia? The EMU is in a way the European answer to the globalisation process. With globalisation new forces are released. We see the impact in Asia with the current crises. I believe that Asia is going to come back and everybody who does not count on that is really making a strategic mistake. And undoubtedly the lesson of Asia also is proof that we need more than simply the dollar as a basic reserve currency.

The world of tomorrow needs more stability in economic and financial terms. What the Euro will do is help to establish – after perhaps some ups and downs in the first period – the world's economic and financial system. Because it will impose discipline not only on ourselves, but also, for instance, on the United States.

There will be a medium term effect on the reserve holding of dollars. We, ourselves, will need fewer dollars in our reserves because a lot of our external trade will become internal trade. Our direct trading partners – central eastern Europe and Russia and the Mediterranean – will probably convert part of their dollar reserves into European reserves. We will trade more in Euros, for instance, with a country like Brazil. When Brazil deals with France or Germany, it usually deals in dollars. There is no reason to go via dollar to the Euro. You then have direct Euro contracts. So there will be important changes in society.

In the relationship with Australia there is another point. For the first time we are creating a very deep and broad financial market. We will have a kind of market comparable to the USA. At first it will be a

bit smaller, but when Britain joins in four to five years time, by the time you become a republic, there will be equality between the European and American markets. So it is an important consideration for the export orientation of Australia. Why concentrate only on America as your main export market? Don't forget that our other markets are about to grow. As Australia reinvents itself, it will create a self confidence in a phase of emancipation, it will be a broader society. At the same time, you don't want to lose your past. Make some benefit of looking at the new Europe.

Economic and Monetary Union has been the fruit of a political commitment that has been constantly reaffirmed at the highest level and is enshrined in the Maastricht Treaty, which was ratified by all Member States, several years of adjustment efforts and the strict application of the Treaty in terms of convergence criteria. The medium and longer term advantages of the introduction of a single currency in Europe are also in the advantage of Australia. Let us hope that as Australia gazes in the unlimited future, it will not lose sight of its past.

## **Endnote**

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1. Schuman was the French Foreign Minister who first suggested the idea of a European Coal and Steel.

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Photo - David Karandis

*Dale Spender*

Dale Spender is a prolific writer and commentator. Her most recent book is *Nattering on The Net*. Dale Spender has become a strong advocate for the information technology revolution which she believes should transform Australia's resources. She argues that information technology is creating unimaginable opportunities in the area of education authorship. Dale Spender spoke for The Sydney Institute on Monday 11 May 1998.

# AUSTRALIA'S

## *FUTURE; IT'S MINDS NOT MINES!*

**Dale Spender**

Every student in this country needs a computer. And an internet service provider as well. It's a minimal requirement for learning, and for citizenship, in Australia's digital society. Last century, every student had to have a slate. This century, every student has had to have textbooks. And from now on, every student has to have a computer. Shocking as such a statement may seem, (where are these computers to come from? who will pay?) the implications are more far reaching than is even first suggested. For the resources of a knowledge economy – the state we are heading for – are entirely dependent on the cleverness of the people: on the ideas, skills, information, that they can generate.

A knowledge society is one where everyone has to keep up – to be engaged in life long learning. And if we are all life-long-learners, there is no such thing as a separate student body. We have all become students. And we all need our own computers.

How we are going to get them is quite another question. But the reality is – they are a necessity. Computers, and computer competency, are the basic communication tools in a digital world. Just as books, newspapers, magazines, manuals, etc, have been the primary communication sources in a print based culture. And if you can't use the primary communication medium, you can't be a full member of the community.

People who have been illiterate in a print based society have not only been "left out of the loop", they have often been embarrassed, even ashamed of their inability to read and write. They have usually tried to hide their illiteracy. Already we can see much the same thing, happening with computers. People who cannot use them are well outside the loop. They know they are missing out on something, that they are "behind". They too try to fudge – to pretend that they know what's going on. (When often it is embarrassingly clear – that they do not!)

Of course there are some – politicians, educators, pillars of society, and leaders of industry – who are so far out of it that they don't know, they don't know. Which poses one of the biggest problems for

the country's future. Because computers are how the world works, now. And here I want to make a serious point. That there is a big difference between those who "think-computer", and those who do not. This is the information revolution.

It was the same with the earlier information revolution – with the invention of writing and print. There is a vast cultural difference between pre-literate societies, and literate ones. They think differently – they have different values, entirely different ways of making sense of experience.

Print revolutionised communication, and social organisation. The printing of accurate maps, for example, made more exploration possible. The ability to accurately replicate graphs, charts, led to amazing developments in mathematics, science – and the industrial revolution. And to new sources of wealth and its distribution. The availability of pamphlets, newspapers, books, and the growth of a mass reading public, contributed to the growth of democracy. In short, print became a major force in shaping the culture, in forging our institutions and our value system. And now print is going. It is being displaced.

Now we are experiencing another cultural leap. We are changing the very basis of how we think, what makes sense – even what we classify as intellectual skills. What we once thought were "truths" are turning out to be the conventions of a particular communications culture.

The new technologies do not mean that we stop reading. No more than we stopped talking once writing was developed. But just as talking had a different status, once print was invented, so too is there a change in the role of print, and books, now that we are "wired". And people who remain literate rather than become computerate aren't part of the extraordinary "mind change" that is taking place. It's not just that they can't use a computer – it's that they aren't developing the ideas and understandings that make you a member of the new culture. Only those who have made the cultural leap can appreciate the imaginative possibilities of the new communication forms. It's a bit like leaving the "dark ages" behind.

If I had to draw an analogy, I'd look at the women's movement of the 1970s. That was another cultural change where many of us abandoned our old ways of thinking, while others stayed with their sexist views, and an increasing sense of grievance and loss. It's because these parallels so often come to mind that I now talk about "printist people" – the print bound individuals who can't get their mind round the information revolution. Unfortunately, many of them are in positions of power and influence.

The computer is restructuring work, learning – and wealth. It's also revolutionising leisure and health – which doesn't leave much else. And it is changing our world at such a rapid pace that we cannot predict the future. We even blithely inform today's youth that the work

they will have as adults has not yet been invented. It's these changes in the work place that are proving difficult for some of our policy makers to grasp.

In 1918, 50 per cent of the population in developed countries was engaged in rural occupations. (It was more in undeveloped ones.) The next largest group of workers was live-in servants. In England the census defined a lower class family as one with fewer than three servants. You can imagine how many people were employed in such work. Eighty years later, these workers have all but disappeared. Less than two per cent of the population in countries like Australia, the US and the UK, are engaged in rural occupations. And live-in servants are rarer than hens' teeth (though the nanny is making a comeback in some circumstances).

So where did all those workers go in the last 80 years?

They went into the "factory system". Into the manufacturing industries. Into mining resources and processing them. That's been the basis of wealth for the 20th Century. Since 1918 we have witnessed the spectacular growth of jobs in the blue collar sector. But even more spectacular than the rise, has been the fall. Which goes hand in hand with the introduction of the new technologies.

As the blue collar jobs have gone – the information jobs have appeared. In the US, where there are many who appreciate that there are now new ways of generating wealth, the prediction is that by the year 2000, about half the population will be employed as knowledge workers. They don't talk there about creating new jobs in the mining and manufacturing industries. They talk about using your brains.

These understandings have flowed right through to popular culture. In the film, *Primary Colors*, the "Bill Clinton look alike" addresses the demoralised blue collar workers and tells them he can't get their jobs back but he can help them use "the muscles of their minds". He can provide an education system and the learning possibilities so that they can become citizens of the new society and find work in the knowledge economy. Which is why I would like to see *Primary Colors* made compulsory viewing for Australian policy makers. This is the issue I want to raise.

In this country, at this time, we have no national forums where these mind boggling changes are being explored and explained. There was some attempt to develop public policy and engage the population in the last government. The Superhighway Roundtable, and Creative Nation for example, did put the new technologies on the national agenda. But in the last two years, there has been no equivalent. I won't name names, but we do have political leaders, educators – and executives across the nation – who haven't ever turned on a computer. Who give themselves away every time they make pronouncements. It's a bit

like putting people who can't read – in charge of the library; their actions invariably appear bizarre.

As a citizen I find this exasperating. As an educator, I find it scandalous. I am outraged by the absence of policies which will prepare us for the knowledge economy and society. At the moment, we confront the greatest inequalities in our education system that I have ever encountered. On the one hand, we have leading schools, like MLC Melbourne, where for many years, every girl has had a laptop, and where the school culture is preparation for the digital environment of the 21st Century. (The only barrier for the girls is that they still have to do traditional examinations; the problem is not just trying to write with a pen – it's trying to think with one!) But just down the road from most of our private schools are state schools where there are no laptops at all.

Some teachers say to me – with great pride – “We've got a computer in our classroom.” And I say, “Oh, how would you feel if you had a book? Would you have students come out and write in it once a fortnight? Or read from it once a month?” You'd think it was absurd to have ONE book. And it is just as silly to have ONE computer!

But the inequalities don't stop with the hardware.

In the United Kingdom, one of the major and most attractive platforms in Tony Blair's 1997 campaign, was arts and education. He promised that every child would have an email address by the age of nine. In the USA, they have Al Gore, who has promoted the wiring of schools and universities, and who has put up \$US1.5 billion<sup>1</sup> to implement, and evaluate, the new educational technologies. In Australia we have David Kemp. And his doctrine of “Back to Basics.”

Let me make it quite clear. I know of no private school that is falling in with Dr Kemp's edict that students should be able to read and write in the same printist way that he did, when he was a boy. Private schools all over the country know that the best service they can provide their clients is to equip them for the knowledge economy. In contrast, there are state schools where students are being drilled in the old cultural forms – which could actually disqualify them from participation in the knowledge economy.

Already our schools are streaming students into the information haves and have nots. It's blatant, divisive, and it doesn't even attract passionate press coverage. Computers should not be just for the privileged. Equal opportunity – a phrase we hear little of, anymore – should mean equal opportunity to become a knowledge worker. And this is why we should be thinking of computers as a matter of national policy.

Last century we decided that every one should have access to information, but that not everyone could afford books. And we came up with imaginative solution of the public library. Many of our national leaders now declare their indebtedness to the libraries which gave them information, and their start in life. But they don't seem to show the

same willingness to provide the next generation with appropriate access to information. What we must understand is that computers are not a cost to the country. They are an investment in the future – in the creation of wealth, and jobs. And the fabric of a fair and stable society.

Throughout the industrial era, governments of all shapes and sizes have recognised the necessity for the state to provide the infrastructure which has got the workers to work, and the goods to market. There have been national transport policies, with huge amounts of money invested in railways, roads, air – and sea ports. And a national computer system, connecting all our citizens, is no less a form of necessary transport in a knowledge economy, than was every railway siding that was built for a mine. Yet the wealth of Australia will come from minds, not mines.

So we need national knowledge and education policies which not only foster creativity, intellectuality, and the blooming of Australian culture, but a transport system which connects Australia's mind resources – and gets the goods to the global market. Currently, there is no national policy that puts education and the arts at the centre of work and wealth, where they belong. (In Britain, in 1996, rock musicians generated more wealth for the country, than the steel industry. In Australia we should be looking more at the wealth creation possibilities of Ozemail, rather than trying to put new life in old industries.)

In the absence of national planning in Australia, we not only jeopardise our economic future, we are wasting resources, on a massive scale; we are witnessing a repeat of the old railway gauge fiasco – with all the many systems that can't talk, or transport, to each other. The national climate is more one where our knowledge institutions are being penalised rather than promoted.

(Not that I think our universities are doing well; unlike Macquarie University – which is becoming a player in the knowledge economy – many institutions remain wilfully outside, taking pride in their distance from industry and work.)

Imaginative and productive though the individual solutions of MLC and Macquarie might be, they are just not enough for Australia's future. The country desperately needs a new resources policy; new research and investment priorities.

If Australia is to have a future, it must produce intellectual property to sell to the rest of the world. To do this, we must all be computer competent, we must all be wired up. But we must also have government policies which support and sustain the knowledge industries – and the unique Australian cultural products which the rest of the world must want to buy.

It's a challenge to the traditions of the nation to put minds before "mines". It's the only way to become part of the knowledge economy, and to bequeath a decent inheritance to the next generation.

## Endnote

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1. The President's Panel on Educational Technology has recommended that \$1.5 billion in federal tax money be spent on a national research project aimed at improving educational software and studying the most effective ways of using computers in classrooms. In NetWatch, March 24, 1998; in Wendy Y Lawton, *The Gazette*, March 19.



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Photo - David Karonidis

*Gwynne Dyer*

On Tuesday 19 May 1998 Gwynne Dyer gave the second Australia-Canada Centenary Lecture at The Sydney Institute. The lecture was sponsored by the University of Western Sydney and the Canadian Consulate General. Gwynne Dyer has worked as a freelance journalist, columnist and lecturer on international affairs for more than 20 years. His television series, the seven part documentary *War*, was aired in 45 countries in the mid 1980s. He has just completed *Millennium*, a six hour series on the emerging culture.

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# IMMIGRATION,

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## *CANADA & AUSTRALIA*

Gwynne Dyer

Australia and Canada are like twins who were separated at birth, following similar paths in almost complete ignorance of each other – and one of the most striking aspects of their hidden symmetry is that the same pair of dates more or less defines both countries. If you asked the average Australian for the significant dates in Australian history, he or she would probably say 1788, 1901, and perhaps 1915: the First Fleet, the creation of the federation and Gallipoli. But I would disagree. I would suggest that the key dates in defining the character of Australia were 1433 and 1966. I would also say that the same dates defined the character of Canada – except that in Canada the dates are 1433 and 1967.

1433 was the year when the Ming emperor forbade ocean voyages from China, which is the only reason why Australia is not a Chinese-speaking country. In the early 15th Century both China and Europe were on the brink of ocean exploration and the conquest of the entire world. They both had gunpowder, printing and magnetic compasses, and their first ocean-going ships had already sailed beyond their coastal waters: Portuguese ships were venturing down the African coast, and a Chinese fleet sailed right through Indonesia and on into the Indian Ocean. The world beyond Eurasia, the stone age or early iron age world of the Americas, Africa, and Australasia, would fall helplessly into the hands of whoever got there first: the western Eurasians or the eastern Eurasians.

Had the Ming Emperor's decree banning ocean voyages not been issued in 1433, I suspect that in North America today, or at least in North America west of the Mississippi, people would speak Chinese. They would certainly speak Chinese in Australia and New Zealand. It was only that capricious act, by an emperor who practically never ventured beyond the imperial palace, that left the Americas and Australasia in the hands of their Aboriginal peoples until settlers from Europe arrived several centuries to put their stamp on them. As a result, both Australia and Canada came to independence as essentially European,

and indeed specifically British, societies (though of course in Canada there was always the parallel French tradition).

For a long time it looked as though 1433 was the only date that mattered; that Australia and Canada would forever be defined ethnically and culturally as far-flung outposts of north-western Europe. But then, in the mid-60s, both countries changed their minds about that.

This was a policy revolution. Indeed, in the first half of the 20th Century both countries had expended quite a lot of effort to ensure that their ethnic and cultural composition never changed. The very process of setting up the Australian Commonwealth in 1901 involved a good deal of negotiation to make sure that none of the states allowed non-white immigration, and Canada in 1910 passed an immigration law which said that "Canada reserves the right to refuse entry to people who do not suit the climate or the culture of Canada". Canada (which had better PR advice) never had an officially declared "White Canada" policy, but the legislation worked just as well: at the beginning of the 1960s, both Australia and Canada were 99 per cent European by descent. And then we changed. Why did we change?

Essentially there were two reasons that Canada changed its immigration policy in 1967. The first was the sexual revolution: between 1955 and 1965 the birth rate in Canada dropped by half, from around 28 births per 1000 people to 14 per 1000 (where it has remained ever since). That is well below replacement level – so we suddenly had a fiscal nightmare on our hands.

The absolute numbers in the population don't particularly matter – 10 million, 20 million, 30 million, we've had all of those populations in Canada in the last hundred years and we got along quite well with each of them. There's no absolute right number for a population – but what is definitely wrong is a population in which there are more old than young. The consequence of a rapidly falling birth-rate is a population pyramid that stands on its head: each younger generation is smaller than the cohort above it in age, so that a smaller and smaller working population must support a larger and larger retired or medically dependent population. By the mid 1960s, therefore, there was panic in the Canadian Treasury Department about the impact on the government's finances in 20 years time.

The solution to this dilemma was pretty obvious, especially for a country that has always accepted large-scale immigration. You just call up the reserves: you bring in more immigrants of working age, and that fixes the hole in your demographics. Alas, by the 1960s you couldn't get immigrants in sufficient numbers from Europe. Western Europe was having its great post-war economic boom, and if you were a young British person, or a young German, or even a young Italian, you could reasonably look forward to getting a job, owning a car, buying a house or flat when you got married, and having holidays abroad every year. So

why on earth would you move to Saskatchewan (or, indeed, to South Australia)? Many Eastern Europeans, of course, would have dearly loved to move, but their Communist governments wouldn't let them go. So there was no way to fill the new demographic gap with the traditional European immigration.

That was probably the larger reason for the change in Canada's immigration policy, but there was also certainly a moral component. It was the 1960s, and the civil rights movement was having a huge impact right next door in the United States. It was a time when moral categories were changing fast, and Canadians were beginning to feel embarrassed about being so blatantly racist in their immigration policies.

The pragmatic and the idealistic motives came together in 1967, in the first months of the new Liberal Government led by Pierre Elliott Trudeau, and caused a complete transformation of Canadian immigration policy. In a single leap, Canada went from a policy that could be summed up as "no non-whites need apply" to what is known as the "points system". Under this system, potential immigrants from anywhere in the world are evaluated on the basis of their linguistic skills, their educational achievements, their work skills and employment experience that are relevant to the Canadian job market, and their relative youth and child-bearing potential. They get further points for already speaking either English or French (more for both). The points are added up, and their score determines their eligibility to immigrate to Canada, and even their place in the queue.

It's a system that pays no attention whatever to whether you are black, white or green, or whether you are Muslim, Christian, Hindu, or non-believer. There are other immigration programs, of course, for "investor-category" immigrants, for refugees, for family reunification and the like, but for 31 years this has been the central Canadian immigration policy. It was designed to be as non-discriminatory as possible, and it has succeeded beyond the wildest dreams of its architects. In theory, and most of the time in practice, a 28-year-old Mauritian computer programmer of Hindu descent who speaks English and French will get a place in the queue well ahead of a 38-year-old Australian accountant of British descent.

In a convincing demonstration of the "lost twins" phenomenon, Australia went through an almost identical exercise at the same time. It did not happen quite so dramatically: the "White Australia" policy really took 25 years to die, though it started to fade as early as 1949, with the government's generous agreement that some Japanese war brides could actually live in Australia. But the key change came in 1966, when the Liberal government of that time essentially said that non-European immigrants would henceforward be welcome in Australia.

In Australia, as in Canada, the actual legislation codifying this change of policy didn't come until the early 1970s, but since then fully two-thirds of Canadian immigration has been non-European. A growing but lesser proportion of Australian immigration has also been non-European. And this has had a huge demographic impact because these are both countries that take a lot of immigrants.

Among the larger countries on the planet, Canada has by far the highest per capita rate of immigration. Canada, with a population of only 30 million, takes in an average of over 200,000 immigrants a year. The present government's declared target is actually even higher than that – one per cent of the population a year, or around 300,000 – but even in terms of what actually happens Canada is taking in 0.6 per cent of the existing population annually. This may sound modest, but it adds up. Every decade Canada adds an extra 6 or 7 per cent to its population that consists of immigrants drawn from all over the world, two-thirds of them non-European – and the policy is now over three decades old.

Thirty years ago, for the same combination of fiscal and moral reasons, Australia set off down the same road, but it has not travelled nearly as far. Australia has a very high rate of immigration in comparison with most other developed countries (underdeveloped countries, of course, get virtually none), and latterly Australia has also been taking much of its immigration from non-European sources. But the change in Australian society has been nowhere near as great, and Australia risks losing out on the wider benefits of an open immigration policy. So let me talk about the Canadian experience – the one I know better – and then offer some observations on the Australian experience from that perspective.

If you haven't been to Canada recently, you have no idea of the scale of the transformation that 30 years of high-volume global immigration has produced. When I last lived in Toronto in the mid 1960s (a mistake I rapidly rectified), perhaps one per cent of Toronto's population was what they now call "visible minorities" – non-white. Next year, according to the mayor's office, it will exceed 50 per cent – and that doesn't even count the "invisible" non-Europeans: Argentines, Iranians, white South Africans and the like. This wave of new immigration has completely transformed the city, and it has done so without any serious disruption, let alone violence – whereas in Los Angeles, the only other major Western city to have undergone such a sweeping demographic transformation in such a short period, the inhabitants regularly burn parts of their city down.

One would be tempted to credit Toronto's far happier experience to the fact that its population is so extraordinarily diverse, with significant representation from every region and continent but no single dominant ethnic group – except that in Vancouver, where close to a

quarter of the metropolitan population is of Chinese origin, there has been no big backlash either. Even smaller Canadian cities have undergone a remarkable transformation. Places like Edmonton, Hamilton, and Victoria – the Australian equivalents might be Adelaide, Newcastle, and Hobart – have 15-20 per cent visible minorities. Last year I was talking to the Halifax Chamber of Commerce, and their concern was that they weren't getting enough immigrants (only eight per cent of Halifax is non-white). Interestingly, they believed that somehow they had to create policies that would attract more of the new immigration to Halifax rather than merely to the larger metropolitan areas, because otherwise they were going to lose out economically.

Canada has its rednecks too, of course. They are mostly from areas where there are very few immigrants – small towns, rural areas and the more distant suburbs – but they think immigration is a big problem. Every five or ten years they raise a fuss about it, and Ottawa has to respond. Typically, in Canada, the government then does the dance of the seven veils: Royal Commissions are set up, public enquiries are held, perhaps a parliamentary committee is struck to examine immigration policy – and after much deliberation and confabulation, a new policy is announced with great fanfare. On closer examination, however, the new policy turns out to be the old policy in thin disguise.

This is not accidental or perverse. Inside the government, they have realised that the changes they made to immigration policy in 1967, originally to solve a fiscal and a moral problem, have turned out to be the most promising potential solution to Canada's future economic problems as well. Indeed, they have concluded that the new immigration may be the economic salvation of Canada in the 21st Century. They rarely put it so bluntly in public – it is better not to talk about such things in front of the children – but the calculation is this.

Canada, like Australia, is insured against ever becoming very poor, because we are small populations sitting on very large shares of the world's raw materials and resources. (In Canada's case, we are one half of one per cent of the world's population sitting on five per cent of the world's land, and Australia's ratio would come out about the same.) So we have ten times our fair share of the world's wheat, minerals and fish, which guarantees us a certain minimum national income whatever happens. But our resources certainly do not guarantee us a perpetual place near the top of the world's income distribution league, nor does the increasingly automated and capital-intensive business of resource exploitation provide much of the employment that our populations need.

For most of this century, the bulk of our wealth and our people's employment has been found in the industrial and service sectors, but it is precisely our ability to compete in these areas that is being

challenged in an increasingly globalised economy. The current financial difficulties in Asia have driven this threat into the background for the moment, but the long term trends have not changed. The secret of how to build and run an industrial economy is out, and it cannot be retrieved. Everybody can do it, and pretty well everybody is going to do it. They will do it, moreover, at wage levels which will compete very favourably with those in the older industrial countries like Canada or Australia.

This is the great threat to our prosperity: that as the 21st Century unfolds we will cease to be competitive across very broad sections of the traditional manufacturing and processing industries. It would be unrealistic to expect that we can compete with South East Asia, Latin America and even, as time goes on, developing Africa, in areas of manufacturing where the skill input is not very high and where the capital requirements are not prohibitively high. So how will our children earn their livings in a world where so many of the old, good industrial jobs are – in the North American phrase – “going south”? How will we maintain present levels of prosperity (even with all our natural resources) in a 21st Century world where traditional manufacturing industry is no longer the mainstay of our economy?

If the question is large enough, the answer tends to be obvious. In this particular case, the answer to the industrialised countries' dilemma is actually quite an old answer. You abandon some of the lower-end manufacturing processes to your new low-wage competitors, and seek to create new employment at the upper end – especially, in the present context, in the high-end service industries, and most importantly in the rapidly expanding field of international services.

This is a well-trodden path. The British had to go through this adjustment toward the end of the last century, when the European continent industrialised. It started in the 1870s, when cheap tin toys and trays from Germany began flooding the British market. As the decades passed, more and more sophisticated manufactured goods invaded traditional British markets both abroad and at home, and Britain found it impossible to compete on wage costs. Sound familiar?

Britain's response was to move upstream, not so much to higher-tech industrial processes (where the Germans and their other rivals could quickly catch up), but more importantly into international services like insurance, banking, and what we would now call cultural exports. These were all lucrative and (skilled) labour-intensive fields where the British could keep a lead on their rivals because of their high level of education, their global contacts, and their particular skill in the manipulation of language and culture. This strategy enabled the British to prolong their wealth and power long past the point when they were overtaken first by the Americans, then by the Germans, and eventually even by the French, Japanese and Russians, in raw industrial produc-

tion. It would not be an exaggeration to say that it probably bought them an extra half-century at the top of the heap.

No solution lasts forever, but a half-century solution would be quite welcome right about now – and it does exist. The old industrial countries can keep ahead of the pack, to some extent, by concentrating on expanding employment and market share in what you might call the emerging global service industries, just as the British did in the late 19th and early 20th Centuries. The only fly in the ointment is that the whole of the old industrialised world faces this problem at the same time. When we in Canada or Australia try to capture a large share of the new market for ourselves, we are competing with the Americans, Germans, Swedes, Japanese and everybody else, and there probably isn't enough market share to go round.

This is where the new immigration becomes our ace in the hole. Most of the new global service economy is in areas – financial services, educational services, information services, entertainment services – where creativity, AND SPECIFICALLY CULTURAL CREATIVITY, is the key to success. To sell insurance services to the emerging middle classes of South East Asia, or educational programs teaching English to the 100 million people in China who will pay to be taught English, you have to be cleverer, more entertaining, more user-friendly than the competition from the other older industrialised countries. And in this context, multiculturalism is a key competitive resource.

The presence within a country of the widest imaginable variety of people, from every ethnic, linguistic, religious and cultural group on the planet, but sharing a common (second) language and a sufficiently common set of (acquired) values, may even be the key competitive resource. You cannot command creativity to appear, nor even measure it precisely when it does occur. But it seems intuitively likely that the diversity of cultural experiences and perspectives now available in a city like Toronto should make it an ideal seed-bed for the kind of creativity that is needed to succeed in the global market for services.

Is this more than an idle hypothesis? It's early days for conclusive proof even in Canada, the world's most multicultural country, because the generation of young Canadians who can access this double heritage (Chinese and North American, African and North American, Arab and North American, etc.) is only now moving up into responsible positions in the workforce in large numbers. But there are some encouraging straws in the wind: two years ago, for example, Canada overtook the United Kingdom to become the world's second-largest exporter of television programming – and television, like it or not, is all about cultural creativity. It may not be high art, but it is most certainly exports and jobs.

To the extent that cultural diversity is the secret weapon that will let some countries outpace others in the race for market share in the

global service industries, Canada leads the pack. The United States and the United Kingdom (with 8 and 7 percent "foreign-born" respectively) should do reasonably well, while mono-ethnic Japan and Sweden may expect to find themselves at the back of the parade. And where does Australia sit in all this?

Twenty-three per cent of Australian residents were born elsewhere, which sounds quite impressive; the figure in Canada is hardly any higher. But the Australian statistic is actually rather misleading, since the vast majority of the "foreign-born" in Australia are British or New Zealanders. Only 5 per cent of Australians are Asian-born, and less than 3 per cent come from all of the Middle East, Africa and Latin America. In fact, Australia is doing considerably less well than Canada in the diversity stakes.

Over the past 20 years, Canada has managed to set up a system that recruits immigrants equally from almost all parts of the world. The share of each region of the world in the total Canadian immigration intake is almost identical with its share in the global population, give or take a few percentage points: around a quarter of Canadian immigrants come from East Asia, a quarter from South and Southeast Asia, ten percent from Africa, ten percent from Latin America, and so on. (Besides enriching the cultural mix in terms of creativity, by the way, this also gives Canada the enormous advantage, for a trading nation, of having a population with second cousins in every large city on the planet.)

Australia, by contrast, fails to recruit many immigrants outside of Asia, Oceania and Europe. Moreover, it just doesn't bring in enough immigrants. If Australia took immigrants at the same per capita ratio as New Zealand, it would be taking in 275,000 a year. If it took them at the Canadian rate, it would take in 125,000 per year. Australia is actually taking in only 68,000 immigrants this year – and that number was determined *before* Pauline Hanson burst onto the scene.

Why has Australia faltered so badly after a promising start, while Canada has forged ahead and "globalised" its own population? Part of the answer, I think, lies in the fact that Canada in the 1960s was already a much more diverse society than Australia, and so more able to adjust to the reality of mass non-European immigration without major resistance. The historical presence of the large French-speaking minority had acclimatised Canadians to the notion that cultural homogeneity is not essential to national survival, and the first big wave of non-British immigration to English-speaking Canada (mostly from Central and Eastern Europe) came before the First World War, during the settlement of the Prairies, rather than after the Second World War as in Australia. (Only in the past couple of years have Chinese-Canadians overtaken first Ukrainian-Canadians and then German-Canadians to become the country's third-largest ethnic group.)

Australia's greater nervousness about ethnic complexity is of course compounded by its geo-strategic anxieties: the rarely-stated, wrong-headed, but nevertheless quite widespread concern that large-scale Asian immigration would in some way constitute a "fifth column" in Australia if regional politics turned nasty. The net result has been to restrict immigration to Australia to levels that make it unlikely that the country will reap the full economic benefits of ethnic diversity. And the current political scene does not suggest that an early turn-around is likely.

This is a pity, since Australia is otherwise ideally situated to capitalise on this phenomenon – as senior civil service people whom I have met in Canberra are well aware. But you can't lead a country where it does not want to go; not, at least, until you have the politicians in the bag. Historical differences aside, the great current difference between Canada and Australia seems to be that our civil servants have largely convinced our political class of the value of a wide-open immigration policy (which is why, under every government, immigration reviews have tended to be the "dance of the seven veils" that I mentioned before), while your politicians remain seriously divided on the whole question.

I can only conclude (with some awe) that our mandarins are even subtler and more cunning than your mandarins.

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Photo - David Kerocidis

*Sophie Cunningham*

Are readers a dying race? Is the book dead? If so, can it make a comeback like Lazarus? With the publishing industry fighting off slick modern competitors, Allen & Unwin publisher Sophie Cunningham addressed The Sydney Institute on Monday 25 May 1998, to take stock of her industry's fortunes.

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# THE FUTURE OF

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## AUSTRALIAN PUBLISHING

Sophie Cunningham

I'd like to talk about the future of Australian publishing, specifically book publishing. There is a sense, I think, that people believe the book is dead. It's not. It is true that there are a lot of companies trying to expand rapidly into the market when there are not necessarily readers developing at the same rate. But that doesn't mean that there's not a healthy future for the book.

Michael Korda, the editor-in-chief of Simon & Schuster, suggests that one feature of publishing is that it always believes it's about to collapse: "I've been in publishing for nearly 40 years, and in that time people have always behaved as if the sky were about to fall. The sky was about to fall because of television. The sky was about to fall because of discounting books. The sky was about to fall because of conglomerates. The sky was about to fall because of agents. The sky hasn't fallen."

And let's look at the figures. The number of people employed by the industry in 1972 was 652. In 1997 it was 5583. The total sales of Australian books in 1972 was \$18.4 million, in 1997 it was \$561 million. Approximately 50 per cent of all books published into this market are Australian. This is a huge shift. And a positive one.

All that said, returns are increasing, and the trade is down. In both Australia and the United States, HarperCollins, one of the world's largest publishing companies has slashed the number of titles it produces each year. Bantam Books cut back five years ago by 30 per cent. Simon & Schuster has reduced the number of books it publishes by 15 per cent. The merging of Reed and Random has resulted in the number of titles being rationalised in the Australian market. It is likely the merging of Transworld and Random will decrease the number of titles again. It is more and more common to hear of publishers cancelling contracts on titles that are running late.

Books don't make a lot of money and they never will. In an age of economic rationalism it's often hard to make sense of book publishing. A lot of media magnates are trying to but they are never actually going to get the kinds of figures they want. Obviously a publishing company

has to be profitable. But it's not going to make the kind of figures that, say, the movie industry will make.

The recent Bertelsmann takeover of Random has caused a lot of debate. The figures that are thrown around vary dramatically. The Authors Guild in the USA doesn't want the takeover to go ahead on the grounds that 36 per cent of the adult trade market share will be owned by one company. But Bertelsmann claims they have only 10 per cent of the market share. The reason for the dramatic differences in figures is partly semantics because the Authors Guild is talking about the kind of publishing a lot of us think about – that is general trade books rather than including more specialist areas of publishing such as educational publishing.

There is an understandable concern that the increasing size of publishing houses will turn books into a homogenous product and that everything will be marketing-driven. To some extent these concerns are valid. But it will also offer a space for niche publishers to develop. Patrick Gallagher, managing director of Allen & Unwin, has been quoted as saying he thought that independent publishers would benefit from the merger between Random and Transworld. Allowing them, if you like, to offer a boutique service, and more publishing opportunities into niche markets. Hilary McPhee, on the other hand, has been quoted as saying these mergers will disadvantage smaller companies because they will create the sense that size does count and there is a lot of clout coming from those companies.

When there is a lot of change there is a lot of anxiety. Multinationals become seen as evil and independents become idealised. The creation of these kind of dichotomies, while true in part, can often be unconstructive. Independents sometimes are actually more pressed to make commercial decisions because the bottom line can be more pressing. It also pigeonholes these companies in a way they may not be comfortable with. I know that Allen & Unwin is considered to be a company which does difficult books. But while we do difficult books we also do commercial books, just like the multinationals. And, on the other hand, a lot of large companies have people working there that are very committed to doing books they feel passionate about. It could also be argued that a larger house can sustain more smaller books which don't sell (though of course their overheads are increased by their staff and structures). Basically I think the key issue is the management culture, and how much the management cares about books as opposed to the bottom line.

Having said all that, it is also clear that several independents have made a profound contribution to Australian culture: McPhee Gribble, Allen & Unwin, Angus & Robertson, Lonely Planet, Currency Press, Text Publishing, just to name a few. And overseas too, a lot of the inde-

pendents are producing the kind of books that are selling very well *and* receiving critical acclaim.

It is also true that no matter how many committed and fabulous individuals work at multinationals, they can often find their position destabilised by takeovers. And it is true that larger companies can experience long periods where staff feel particularly demoralised and non-committal. This is less a complaint to emerge from independents, though staff may complain of lack of money or over work.

But while there is certainly a homogenisation of book cultures occurring, that is not a necessary result of the growth of multinational publishing houses. It is a result of a failure of nerve. Anthony Cheetham, Managing Director of Orion Books described this phenomenon well:

Now it's the thirty something girl being vaguely scabrous about her life. We publishers proceed to kill the genre as fast as possible by over publishing books to grotesque degrees with vastly overinflated expectations as if the whole market has suddenly changed overnight. All that has happened is that one author has come up with a book that discovered a small niche. It does not mean that suddenly everyone is interested in only that.

So on the one hand you have a style of publishing which is based on the idea of repeating successes, as described above, and developing brand authors, such as Bryce Courtney. On the other hand there is the success of books like Dava Sobel's *Longitude*, published by Walker, an independent, American family-owned house. Or, published here by Hyland House, Dorothy Porter's *The Monkey's Mask*. It does tend to be smaller publishers or imprints which take on riskier projects which potentially open up new areas of publishing.

I would argue that small companies: McPhee Gribble, Allen & Unwin, Walker Books, Bloomsbury, Grove Atlantic, Virago before it was bought out, and Fourth Estate feed the culture. They produce content, in the same way it could be argued that the ABC, or Channel Four do. I am not suggesting for a moment that mainstream films or books are less worthy – hey I'm a huge fan of *Titanic*. But these larger companies, with notable exceptions, are less in the business of taking risks.

I don't have all the figures, but in the last 20 years a lot of smaller independent companies have been bought by larger houses. The people who are now running these companies are often looking to get double figure profit margins when books have never made more than about six per cent. In the past, publishing was seen as buying a piece of culture. A company like Farrer, Straus & Giroux, which has published a lot of Pulitzer prize winners, wasn't viewed just as a money making machine. It was viewed as something that was a part of the culture:

In the past, modest, or even nonexistent, profits didn't seem to affect the value of the companies themselves. Publishing was always about more than money: there was a sentimental appeal, the

pride of producing something permanent, something important to the culture – a book. The profit history of Farrar, Straus & Giroux had been spotty at best when Von Holtzbrinck bought a majority interest in it. But Farrar, Straus was the publisher of twenty winners of the Nobel Prize in Literature. Farrar, Straus was more than a business: it was a bit of the culture. (*The New Yorker*, October 6 1997)

But now publishing companies are being looked at simply for the amount of money they make and the figures don't always look good. That said, Anthea Morton, who is the managing director of HarperCollins, says that people misrepresent the larger houses: "When I read that Rupert Murdoch and other so-called vulgarians want to make 15 per cent, I cry. If we could make eight per cent, I'd be Queen of the May." (*The New Yorker*, October 6 1997)

The bottom line is this. A bestseller book is never going to make as much as a blockbuster movie. In a publisher's dream world, in which everything works – in which paperback and foreign rights are sold and returns are low – a book should be able to make an immediate profit of six per cent or so. And that's the best case scenario.

One way that publishing houses are trying to maximise profits is to keep subsidiary rights, however agents often fight to keep these. In New York a couple of years ago Random House insisted on keeping subsidiary rights but the agents went on strike by refusing to submit manuscripts to Random while they insisted on retaining rights. The agents won.

So, the book is a product. It is not just a book, but a film, an album and a T-shirt. There is nothing actually wrong with books being sold as products. I don't think we can be snobby about that kind of lateral thinking. But one of the problems it does raise is that if you treat books like products they can become *reduced* to product.

To return to Patrick Gallagher's comments about the niche publisher, I think it is fair to say that many independents are beginning to position themselves in this fashion. Allen & Unwin is the largest general publisher, but started by building out from its academic list into a range of other niche areas – such as women studies, military publishing and business publishing. As those lists established themselves they moved more into the general market. It's a very safe way to build a business and it also means that you're providing a need that's not being met by the larger companies:

There are two basic concepts involved in niche publishing. One is very mechanical, as a way to expand. If you see your business as composed of a number of smaller units, it's much easier to get the long-term growth you need. And with the niche approach, you're setting up very few internal jealousies. If you've got two distinguished literary imprints, such as Chatto and Cape in one group and you've got strong publishers in charge of each, then there are bound to be potential conflicts. The niche approach avoids those

internal flashpoints. (*The Bookseller* – May 1998; Interview with Anthony Cheetham, founder of Futura, Century and Orion).

This is relevant in the light of my experience with McPhee Gribble at Penguin. In some ways the styles of publishing were too similar. Certainly the same problems were not experienced by Viking O'Neil when they became a part of Penguin books, because their styles of publishing complimented each other rather than competed with each other. Hopefully the same will be true of the Transworld and Random merger.

Cheetham is convinced that serious but commercial non-fiction will continue to thrive:

The reason I believe so strongly in the future of all of this is that the tendency of all the other media to go in the opposite direction – a “dumbing down”. The other media are forced to be either very specialist – so you have pigeon-fanciers’ television channel – or they’re trying for real mass market. . . . Book publishers are narrow-casters not broadcasters.

So perhaps it could be argued that book publishing in itself will be considered a “niche” activity in coming years. While independents can flourish as multinationals grow bigger, there is still the problem of these smaller companies getting shelf space in book stores, and distributing effectively. Distribution is often what bowls independents over. Some would (and do) argue that small publishers should focus on their creative skills, and leave the distribution to the big guys who know how to do it. This can lead to several problems however. One is the financial strain. A distributor demands 55 per cent discount of the retail price of a book, as compared to 40 per cent if the publisher deals directly with the bookseller.

A second problem is the assumption of a total separation between the “creative” and “distribution” sides of a business. I would argue that in some smaller companies involvement with distribution and the people that work in these areas feeds the culture of the Australian publishing program of that house. It would seem that the ideal answer would be for publishers of similar sizes to come to an arrangement – with neither side being more vulnerable than the other. That is, smaller publishers banding together. Or, in the case of Hodder Headline and Allen & Unwin joining together for distribution purposes, medium sized publishers.

The book trade has never gone through such a dramatic shift as it's about to go through with the introduction of superstores such as Barnes & Noble and Borders. While they can be good bookshops, what happens with those large book stores is that a central buyer orders the books. So the bookshop could be in Randwick, it could be out in the country, it doesn't matter. There is a central buyer making decisions about what books get taken on. Local demand is not getting served and that creates a sameness. Instead of bookshops responding to the geog-

raphy of where they are, they are responding to the label and corporate profile of the bookshop. It also means that certain books will become very big if supported by those kinds of shops.

In the UK, companies often show the central buyers at Waterstone and some of the larger chains their manuscripts before they decide the print run. It's a bit like movies getting screened in the early stages to get feedback, which often modifies the final cut of the film.

As that is happening, that ignoring if you like of localised demands, publishing houses are becoming more centralised as well as becoming more globalised. Most publishing houses, for example, are now in Sydney but when I started in publishing it was split between Melbourne and Sydney. This means that there are a lot of good people and ideas that are not getting respected in Melbourne. Publishing in the USA has moved to the east coast and west coast publishing is fairly decimated except in the electronic area and the newer kind of medias. Good editors can go out and find things from anywhere and good bookshops will sell any kind of book but these things do have a cumulative effect and begin to homogenise our culture.

It used to be okay to have a lot of books that sold 3000-4000 but that's becoming less and less economic. A successful book is now one that sells 10-20,000 which is quite difficult in the Australian market place. One of the ways that publishers try to achieve that is by putting a lot of marketing into those books. The market-driven approach creates that sense of certain books taking off and becoming big but also means that other books do not make their mark: a pecking order or pyramid of success. In publishing we talk about this as the mid-list. It could be argued that companies which do mega books well do not necessarily do justice by more "modest" titles.

That's obviously very concerning for authors. Every author and agent wants the assurance from their publisher that their book will be a big book. A lot of agents and authors believe a very high advance means a publisher will back that advance with intensive marketing. This means a marketing driven style pushes up advances.

There is certainly a growing acceptance of this mode of operation among younger writers who seem to accept that networking and public profiles are crucial to their career. At the Sydney Writer's Festival, Bernard Cohen talked about younger people accepting writing as a career. McKenzie Wark talks about the importance of networking to a career. A lot of these things are happening in other industries, but publishing is special because it's an industry built on relationships - more so, I believe, than a lot of other industries. The people that work in the company, and the relationships between editor and author are important:

Virtually everybody in the publishing industry is there because they are to an extent a visionary, an idealist, a real lover of books. We

would not go into it otherwise, would we? You couldn't say the same about a Mars Bar or a ball-bearing. You could hype yourself into thinking your chocolate company or ball-bearing company is the place on earth to be, but it would be a form of self-deception. Nobody who is in books ever has to question why they are in that business. Because they love doing what they do. That's an enormous strength. (*The Bookseller* – May 1998, Interview with Anthony Cheetham, founder of Futura, Century and Orion.)

Commitment to books is also affected if you think of them as "products". This affects the standard of editing. Most publishers and editors agree that their special authors are often the authors they took on when they had a lot more time. When they were less senior in the company, when they were editing manuscripts closely and working closely with authors. The dynamic is similar to personal relationships – you have to put time in to get the most out of authors.

Now there's a shift from that kind of traditional style of an author staying with a publisher or an editor over a lifetime of their books. People move companies all the time. Partly they are frustrated as the publishers and editors they are working with are no longer there.

There is certainly a perception that editing is going downhill in Australia. But there are lots of complaints about standards without recognition of the increasing stresses that people are working under. Publishing has always been run by the underpaid and the overqualified. Bright people prepared to accept low salaries simply because they want to be involved with books. But according to Anne Goddof, who is editor-in-chief of Random House, "It's more difficult to hire these people than it was ten to fifteen years ago. A starting editor's salary is not much more than that of a clerk typist. And people who once filled these positions appear to be taking their creative talents elsewhere."

The problem is particularly bad in Australia. In the US, structural editors and commissioning editors are accorded a lot of respect. I don't see that happening to editors here. A lot of companies now use freelance editors, including Allen & Unwin. Once an editor, no matter how good, is on a budget of, say, one \$1000 to edit a book they are not going to go through it a third time to check everything is just as it should be as they cannot afford to be that much of a perfectionist. Nor are they going to be able to take lots of long phone calls from authors unless the publisher is committed to paying them for putting in that time they spend. This means that authors often feel that they are not being supported properly.

I published a journalist and fiction writer called Martin Flanagan. I published his first novel six years ago. He rang me the other day and said, "You're always busy. I know you don't have the time. But just tell me what the rules are. Who am I supposed to ring? When? How long can I talk to them for? Because I talked to my editor the other day for an hour and she got really cranky at me."

The industry and the media are now glamorising publishers. There's been about 15 articles about me, usually about what I wear in the last ten years. It trivialises what people do in publishing. And, if the book industry is going to dumb down, we're in real trouble. Quality is what makes a book special. It's what books can do that other information industries are not necessarily doing. Certainly electronic publishing doesn't have the same editorial standards. It's the one way of book publishers differentiating ourselves. Yet there's less and less money going into editing. And while there is a lot of talk and nostalgia, there is little work being done within the industry to tackle the problem.

To conclude, books are cultural products. The grids of economic rationalism don't work. If we don't actually start to try and repair the relationship between the people within the companies (that is make sure people want to keep working in the industry) and to look after our authors better at the editorial level, then there's not going to be a lot of difference between what books do and what's happening on the Net. We won't be a boutique industry – we'll be a small old fashioned industry not taken seriously by anyone.



# **ABORIGINAL**

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## **EDUCATION IN NEW SOUTH WALES**

**Linda Burney**

In making my presentation to you this evening may I first of all acknowledge the traditional owners of the country on which we gather for our discussion. The traditional owners of this part of Sydney are the Eora people and I pay respect to those people. It needs to be remembered that the Eora took the first brunt of British invasion, occupation or colonisation, depending on your perspective. Of course, there is an argument that there are no Eora people left. But that is neither here nor there. The protocol is of respecting and acknowledging them because in that we are saying we are glad to be here. And it gets back to much of the fundamental message of Noel's presentation. Remembering our history accurately. Can I also thank The Sydney Institute, and my long time friend and colleague Noel Beddoe, for bringing me along here tonight and being able to share the evening with you.

I'm going to take a slightly different, and perhaps a more specific, tack in my presentation because I want to explore what I believe to be some of the key issues in terms of the education of Aboriginal and Torres Strait Islander students in New South Wales and probably nationally. I also want to make some points regarding the fundamental role of reconciliation and education in the overall process of reconciliation.

My qualifications to do this are that I have had 20 years experience in the field of Aboriginal education and training. What has struck me in those 20 years, is that whilst there's been some monumental change, the key message is that some of the fundamental issues that challenged the education of Aboriginal students 20 years ago are still the fundamental and key challenges today.

However, let's look at some of the really positive things to start with. One of the real success stories of Aboriginal education and training in NSW has been in the higher education arena. Indigenous people are studying at higher education institutions at an ever increasing rate. In the past decade our numbers have increased eight times as quickly as that of the total student population in higher education. Aboriginal students comprise one per cent of the total student population across universities. That mightn't sound very much, but you need to remember

that we're just two per cent of the total population. However, as I said, the difficult issues of 20 years ago, disturbingly, are still the same issues today.

In a nutshell (and I wish governments would learn from this message) is that the outcome for indigenous students is on the bottom rung of the social ladder, as is the case with all other social indicators for indigenous people – be it health, housing or of course the top social indicator which is the highest incarceration rates in Australia. That's the first fundamental point. In the education arena we are on the bottom rung of that ladder.

The next point to be understood, by educators in particular, is that Aboriginal children (this is not just a message for educators, but for everyone living in this country) come from a different culture. You may think that this is stating the obvious but let me assure you there are many people who have no concept of this or any understanding or appreciation or indeed respect for Aboriginality. And they don't understand how fundamentally important Aboriginality is to us as indigenous people.

I want to try and give some inkling about what it means, to me anyhow. My Aboriginality is fundamentally important and it is this that connects us with indigenous people across the country. It defines who we are, it connects us to each other, it provides and sustains our spirituality and it is the most important aspect of our being. I want to really hammer this home, as much for educators as you people coming along on the first day of winter to hear me speak.

Aboriginality is not about the colour of your skin. Aboriginality is not about the shape of your nose or whether you live in the desert or in the northern parts of Australia. Aboriginality has three definitions as per the Commonwealth government but we Aboriginal people have our own definition. The Commonwealth government's definition is that (a) you're of Aboriginal descent, (b) you identify as an Aboriginal person and (c) you're recognised as an Aboriginal person. But the thing that strikes me sadly, in this country, is that if anyone wanted to choose something they didn't want to be I suspect the highest response rate to that would be to be an Aboriginal person. Being Aboriginal is so important to me and I'm passionate about it. This is not unusual. It's been this passion and this importance and this ability to adapt and change that has actually marked the survival of us, as indigenous people, over the last 210 years.

In terms of the education of Aboriginal kids, it's important to understand a set of complex issues that are often the daily life experiences of indigenous people and therefore impact on our kids' participation needs in education. This equation has to be built into the educational experience of Aboriginal people. Factors include racism, poverty, oppression and some very huge challenges in levels of literacy acquisi-

tion amongst Aboriginal people. Statistics from the 1994 national review on education and the 1996 report card on Aboriginal education bear out my point. The figures are from 1996 but they are just as relevant in 1998 as they were in 1996.

Aboriginal youth are more likely either to not attend school or leave school before the age of fourteen than non-Aboriginal Australians. Nine per cent as compared to two per cent. Only 49 per cent of Torres Strait Islanders and Aboriginal 15-19 year olds are attending schools compared to 90 per cent of the general population. That's compulsory age education. Despite a dramatic improvement in the number of Aboriginal people finishing school, the percentage of students who stay on through Year 12 is now the same level as that achieved by the non-Aboriginal population 20 years ago. That's an important statistic. Aboriginal high school students are less likely to finish high school than other students. Only 25 per cent stay until Year 12 compared to 77 per cent of all Australians. Aboriginal people are less likely to have a post school qualification with around five in every 1000 having a degree or a post graduate qualification. Now I know that's dry and boring stuff but it brings home the disparity of what we're talking about.

I am firmly of the view that a major part of the jigsaw of what goes into the success for Aboriginal education is what our teachers are being taught in our tertiary institutions. I want to say this very strongly. For teachers to have the confidence and skill to teach Aboriginal children and importantly teach Aboriginal studies, they must know what to do and they must be armed with the information to be able to do it.

Fundamental to equitable outcomes for our children are some basic principles which I will simply list. Firstly, and this is a social statement for our country at the moment, the notion of equity is undergoing some alarming redefining in my view. Or worse still, disappearing. This is particularly so at the national level. The prime minister's notion that the pendulum has swung unfairly in favour of Aboriginal people, absolutely has me baffled. You only need the dry statistics I just read out to see this isn't true. Equity is from the base of a very unequal beginning. If there were equitable outcomes I wouldn't have a problem with mainstreaming. But the way mainstreaming is being proposed at the moment I would equate with assimilation.

There is a need for additional resources in Aboriginal education and training but there is also a need for smarter use of the present resources. Most critically there has to be a collaboration between states and federal governments on these issues. I'm not just talking about the disadvantage in Aboriginal education. I'm talking about disadvantage right across the board for Aboriginal people. And the other thing that is critical at the state government level is that there be collaboration between state government instrumentalities. A perfect example is better

communication between the Department of Health and the Department of Education. One of big things that affects the educational outcome for Koori kids is dreadful health issues.

I'll finish up by making some general points. This has been a short summary of what some of the challenges are in Aboriginal education and training and equity. There can be changes but the changes have to come with the will of both state and federal governments.

It is absolutely critical to successful Aboriginal education and training programs, for any success at all in Aboriginal programs, and this is the point that governments continue to not get – that there will only be success when there is an equal partnership between indigenous people, parents of Aboriginal children from the school level right through to very senior boards in NSW. That will change the face of outcomes in this country.

To finish I'll try and make some very brief points about reconciliation and education on a broader issue, in a way supporting what Noel's been saying. The other and connecting road of course is the role of education and reconciliation for the general population. An important plank in the process of reconciliation is equity for all people not just for Aboriginal people. For Aboriginal outcomes to be equal we must have a society that sees equity as desirable.

Secondly, education, and more specifically schools, have the potential to impart reconciliation to all students therefore changing the social face of our country. State governments have to make this commitment and as Noel has outlined, the New South Wales government has done this through its mandatory Aboriginal education policy.

Thirdly, the simple proposition that I put to you all tonight, and it's fundamental to the process of reconciliation and education, is the question, "what sort of country do we want?" That is really the question we need to talk about. I'm saying that the process of reconciliation offers us an opportunity for a harmonious nation not a divided one.

The fourth point, and almost the last point, is that the anchor of truth-telling, as one of the anchors of reconciliation, is the responsibility of education systems. These systems must own their role in the removal of Aboriginal children because education systems in schools were instrumental in that. They must own their role in the decimation of our languages and the teaching of inaccurate history. Education systems must come to terms with that.

The United Nations will consider, very shortly, in the General Assembly, a very exciting declaration. It's a draft declaration on the rights of indigenous people. We are into our sixteenth year of drafting, so it's getting close. Article 26 says :

Indigenous children have the right to all levels and all forms of education of the state – that of course being the country. All indigenous people also have this right and the right to establish and control their own education systems and institutions providing

education in their own languages in a manner appropriate to their cultural methods of teaching and learning. The state shall take effective measures to provide appropriate resources for these purposes.

I'm just wondering how that will go down with some of our politicians.



Photo - David Karanidis

*Peter Costello*

The Hon Peter Costello MP, Australia's Treasurer and rising star of the Howard Government addressed The Sydney Institute on Thursday 11 June 1998. Peter Costello chose as his topic an overview of the Australian economy with some reflections on the case for tax reform.

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# AUSTRALIA'S

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## *ECONOMY - AND REFORM*

**Peter Costello**

The fortunes of the Australian dollar over the past week or so have dominated the media. And so tonight I will address some comments on the way the government sees the economy – what needs to be done and what should not be done. I will not be arguing a particular price for the Australian dollar. I often read that I am trying to talk up the dollar. Just as in 1996 I was used to reading that I was trying to talk it down. I make it clear at the start: Australia has a floating exchange rate. We have a floating exchange rate because experience shows us that this assists adjustment to external developments which we neither create nor control.

Over the long term the exchange rate will be determined by fundamentals – growth, inflation, trade, fiscal settings and monetary settings. In the short term, with dealers making hour by hour, day by day decisions it can be determined by a host of factors – some logical and some not. A raft of financial analysts have suggested that given Australia's fundamentals, the dollar is trading below what they believe is "fair value". I will leave it to them to determine what they believe is "fair value", but what I want to talk about tonight is Australia's economic fundamentals. Ultimately it is the fundamentals which count. This policy is the appropriate focus for government decision making.

Obviously, the big issue of the moment is Asia. Much of Asia is now in recession. Some countries are in deep recession. Once upon a time, 6 per cent growth in Asia would have been considered "recession" but this is actual contraction. In some cases deep contraction.

The key point I will be making is that the Australian economy is starting in a strong position and is adjusting successfully to this downturn in Asia. You might suggest that anything else could hardly be expected from the Treasurer. But the economic data are clear. And I believe not seriously contested. While it is not the subject of racy headlines – "strong economy adjusts to regional downturn" is no match for the "World set to end tomorrow" type of headline – it presents a picture that is a better base for policy analysis.

### **Where we are**

The Australian economy has one of the highest growth rates in the developed world, negligible inflation and a budget now in surplus. The government's program of budget repair has the budget in surplus across the four year forward estimates with debt falling to 10 per cent of GDP by 2000-2001 (one per cent by 2001-2002 following the sale of Telstra).

- The growth rate of 4.9 per cent over the year to the March quarter 1998 is exceeded among OECD nations only by Mexico (6.7 per cent over the year to the March quarter) and Finland (6.2 per cent over the year to the December quarter 1997.)

Australia's growth rate compares favourably with New Zealand (2.1 per cent to December quarter), France (3.0 per cent to December quarter), Germany (2.3 per cent to December quarter), UK (2.8 per cent to December quarter) and OECD total (3.1 per cent to December quarter).

Australia obviously compares favourably with regional economies, many of whom, as I mentioned, are facing deep contraction. Australia is growing faster than any of the countries of East Asia with the possible exception of China.

### **The effect of Asia on Australia**

While the crisis in Asia will slow the rate of growth in Australia in 1998-99, which is consistent with the Budget forecasts, we are starting from a high base. A mechanistic view of the impact of Asia on Australia fails to take account of such factors as:

- The continuing solid growth in the rest of the world, particularly in the US and Europe, and the importance of this to a commodity producer like Australia.
- The flexibility and adaptability of the Australian economy and the extent to which exporters can and are diversifying their markets.
- The role of our open financial markets in facilitating adjustment.
- The soundness and robustness of Australian policy making.

### **The rise in the current account deficit**

Much has been made of the rise in the current account deficit in the March quarter with claims that it reflects a more extensive impact on the Australian economy from the Asian crisis than was expected. An initial widening of the current account deficit as a result of the Asian crisis was clearly expected. In fact, the March outcome was consistent with forecasts, and on close analysis, a little better than expected. The downturn in Asia has come at a time when growth in domestic

spending is strong, which is leading to continued strong growth in imports.

While our import growth will ease over the course of 1998-99, as economic growth in Australia moderates, our export growth will pick up as the decline in the Asian economies moderates and as Australian exporters increasingly diversify their markets. An early increase in our current account deficit as a result of the Asian crisis was expected, but it will be temporary, and the deficit will narrow over the course of 1998-99.

On balance, the rise in the current account deficit in the March quarter – which is by no means the largest rise in the current account deficit in one quarter relative to the size of the economy – partly reflects the strength of domestic demand. However, it also partly reflects a number of transitory factors on both the export and import side which are likely to be reversed in coming quarters. Some of the exports that normally would have occurred in the March quarter, in particular cereals, will now be shipped in the June and September quarters, and some of the imports that would normally have occurred in the June quarter were brought forward into the March quarter, as part of a stock build up ahead of the waterfront dispute.

### **The diversification of Australian exports**

While the rise in the current account deficit in the March quarter shows that the downturn in Asia is impacting on our export growth, the trade data also clearly demonstrates the success of Australian exporters in diverting exports to other markets. In the March quarter, there was a 2.2 per cent fall in export volumes of goods and services – in fact less than most expected – and some part of that was the delay in cereal shipments noted above.

Part of the reason Australia's exports are holding up is that much of Australia's exports to the region are of essential commodities, including those that feed into the production of Asian exports. The net result is that Australia's market share of imports by the affected countries has increased; for example, by around 20 per cent in the case of Korea, and by around 10 per cent in the case of Japan. However, the principal reason for Australia's export performance holding up has been the success Australian exporters are having in diverting exports to other markets. Australia's exports to the US and to a number of European countries have increased by more than Australia's exports to the troubled Australian economies have declined.

For example, merchandise exports in the three months to April 1998 to Indonesia, Thailand, Malaysia and the Philippines have declined significantly – by around 30 per cent compared with the three months to April 1997. But over the same period there has been significant growth in exports to Germany, the UK and the US – in excess of

40 per cent. Over the same period there has also been a moderate increase in the value of merchandise exports going to Hong Kong, Japan and Taiwan. Australian exporters are clearly taking advantage of the demand elsewhere in the world and the increase in their competitiveness which has resulted from the depreciation of the Australian dollar against most non-Asian currencies.

The diversification in our exports demonstrates the inappropriateness of applying a static trade share model to assessing the impact of the downturn in Asia on the Australian economy. This diversification is, of course, not a new development. It is relevant that in recent years Australia's fastest growing export markets have not been East Asia, but in countries such as India, New Zealand, the Middle East and South Africa. This diversification is also evident in our services trade. Services, particularly tourist arrivals, were an early casualty of the crisis in Asia with dramatic declines in arrivals from the troubled Asian economies. Total service exports in constant price terms fell by about 8 per cent in the December quarter but were stable in the March quarter. While the impact of Asia resulted in lower tourist arrivals in the March quarter, it was more than offset by other service exports, such as the export of education and building consulting services. Moreover, we are seeing an increasing number of tourists from North America, Europe and even Singapore. Through the year to April, arrivals from the US increased by 27 per cent, Europe by 18 per cent, and Singapore by 34 per cent.

The more recent data suggest that the downturn in both East Asian tourist arrivals and merchandise exports to the troubled Asian economies may be stabilising. For example, tourist arrivals in April grew by 14 per cent compared with March and tourism increased from all the troubled South East Asian economies. Merchandise exports to Korea actually rose in April, after large falls in preceding months.

### **Strongly growing domestic demand**

All the data, both on the domestic economy and on our trade position, have been in line with the outlook presented in the Budget, if anything a little better than expected. It was noted in the Budget that while the events in East Asia would be dampening our export growth, the strong growth in domestic demand would nevertheless provide considerable support for economic activity over the course of 1998-99. This picture has been confirmed by subsequent data. The March quarter National Accounts confirmed the outlook presented in the Budget of strong growth in domestic spending; domestic final demand grew by 4.5 per cent through the year to the March quarter. Care, of course, always has to be taken when interpreting any initial set of Accounts; they can be subject to sizeable revisions, not only in terms of the bottom line but also in the composition of growth. The continuing strong growth in

domestic spending is evident not only in the National Accounts but is supported by indicators on employment growth, ongoing credit growth and import growth.

Some commentators have suggested that the composition of growth in the March quarter is a cause of concern because of the large rise in stocks. However, the composition of growth in the quarter does not suggest that the outlook for the domestic economy may be weaker than forecast.

While some of the rise in stocks in the quarter may be unintentional, stocks are not at an uncomfortably high level relative to sales. The stock to sales ration rose in the quarter, but only after sharp falls in the ratio in previous quarters. Relative to sales, stocks are only back to levels they were a few quarters ago. The rise in stocks in the March quarter therefore has a component of rebuilding to catch up with sales. This is supported by recent business surveys which do not indicate that there has been an excessive run-up in stocks nor do they indicate any plans by business to run down stocks. As noted previously, part of the rise in stocks was in advance of the waterfront dispute and some of the build up in stocks will translate into increased exports in subsequent quarters.

Consumption growth was flat in the March quarter, but this follows strong growth in the preceding quarters, particularly in the December quarter 1997 with growth of 1.7 per cent. In the last three years we have seen a pattern in the Nation Accounts data of very strong growth in consumption in the December quarter followed by a very weak or flat March quarter with a rebound in the June quarter. Flat growth in consumption in the March quarter may well be followed by solid growth in the June quarter 1998 on the basis of past experience.

The latest survey of business investments intentions indicated a picture consistent with the Budget forecast. While the first estimate of business investment intentions in 1998-99 that was taken in January and February this year suggested continued double digit rates of investment growth next financial year, the second estimate of investment intentions suggests more moderate growth. But it was specifically noted in the Budget papers that business investment was expected to ease from the growth rates of recent years; the second estimate of investment intentions is fully in line with the Budget forecasts. The uncertainty coming from Asia can be expected to hold back some business investment, but business investment will continue to be underpinned by relatively low interest rates and a continuing high profit share as confirmed in the March quarter National Accounts. The most recent business surveys are consistent with the Budget forecasts of growth slowing from the high March quarter rate to around 3 per cent.

### **Appropriateness of policy settings**

The key issues to focus on when assessing the Australian economy are the appropriateness of policy and the quality of economic settings. These are Australia's strengths; they are the factors that clearly distinguish the Australia of today from the Australia of the 1980s. The current account is not the result of an overheating in the economy, there are no domestic inflationary pressures. Australia is not losing competitiveness through having a higher inflation rate than its trading partners. Moreover a framework is in place to ensure monetary policy is applied in a consistent fashion and will maintain low inflation over the medium term.

It has been suggested that the recent fall in the Australian dollar will result in higher inflation than forecast in the Budget. The Budget forecast is for underlying inflation of 2.75 per cent by the June quarter 1999 and incorporates a substantial increase in import prices arising from the depreciation of the Australian dollar in recent months. The more recent fall in the dollar will only impact on the inflation outlook if it is sustained at that level and to the extent that higher import prices are fed into higher retail prices. But inflation will also depend on a range of other factors, in particular wages and productivity. The economic environment in which the rise in the current account deficit is occurring is significantly improved compared with previous increases. This reflects low inflation, including the absence of speculative asset price rises; microeconomic and regulatory reform; and a sound financial system with world class prudential supervision.

### **Fiscal policy**

The first policy response to a high current account deficit is to ensure that fiscal policy is in good shape. The government has already done this - it has turned around a Budget deficit of \$10 billion to surplus in just three years. And Commonwealth fiscal policy will maintain surpluses across the forward estimates and reduce the Commonwealth's debt position back to historically low levels. The *Charter of Budget Honesty Act* will substantially increase the accountability of government - now and into the future.

The Charter requires the government to produce regular reports, including an annual fiscal strategy statement, budget and mid-year economic and fiscal outlook reports and a final budget outcome report. It also requires the government to produce an intergenerational report every five years. The Charter also provides for a pre-election economic and fiscal outlook report to be issued by Treasury and Finance department within ten days of the announcement of an election. This means that in Australia there is no capacity to conceal the true fiscal position as Labor did before the last election. Concealing the position would be exposed at the worst possible time - in an election campaign - by offi-

cers outside the political process. It means that a government frames its Budget on the official assumptions, not on assumptions written by the Prime Minister's office as happened under Labor. The Budget is framed on the official assumptions now because officials will get the final word in an election.

Labor from time to time claims that it can't release policies because it does not know what the budget position is. This is completely false. The Budget position is fully disclosed by the mid year review and annual budget papers. What is more, the pre-election report acts as a discipline on the reporting situation. Because Australia's fiscal reporting is produced in accordance with legislation, the public and the opposition have more information and more reliable information than any other time in history. If the opposition cannot frame policies, it is a competence problem not an information one. Indeed, if it chooses, an opposition can even have policies independently costed by the department officials – an opportunity no other opposition has ever had before.

The *Charter of Budget Honesty* and the transparency it enshrines in Australian fiscal policy is now the state-of-the-art in world terms.

### **Reform of the Australian financial system.**

Let me turn briefly to the financial system – the lifeblood of the economy – an area of particular focus for reform by this government. As we have seen, financial regulation was one of the weak areas in the troubled East Asian economies and one of the main contributing causes to their current crisis. Immediately after its election, the government set up a Financial System (“Wallis”) Inquiry to consider improving regulation in this area. Our policy motivation was:

- the fact that the financial system has entered an era of accelerated change that is likely to continue into the next century; and
- the government's recognition that the performance of the financial system – its stability, integrity and efficiency – and the cost effectiveness of its regulation, are critical to the performance of the entire economy.

Regulation of the banking system in the post-WW II era was derailed and highly prescriptive, which led to the growth of non-bank financial institutions. Almost all banks established subsidiaries to overcome regulatory constraints on bank borrowing and lending practices. The Campbell Committee, established in 1979, was given a wide ranging brief to recommend changes to the regulatory structure of the financial system so as to promote efficiency and stability. Many of those recommendations were subsequently adopted. But the world has continued to undergo significant change and the financial system has not been immune to such developments. While there are a range of factors contributing to the changing structure of financial service industries, two key ones are technological change and globalisation. Against that

background, the Wallis Inquiry identified three main reasons for further reform.

- First, Australia's financial sector performance was assessed to be close to the world average rather than the world's best.
- Second, existing regulatory arrangements do not treat all new market structures and activities equally, and do not always ensure that we get the maximum benefits from change.
- Third, there are a number of areas of the financial system which could be more competitive.

The government's response to the Wallis Report seeks significant improvements. It is directed at the fundamental goals of increasing competition and improving efficiency, while at the same time preserving the integrity, security and fairness of the financial system. By implementing microeconomic reform of this nature, Australia will have a more competitive and efficient financial system that will not only be positioned to compete strongly in the global economy, but will result in lower costs and an increased range of products and services on offer for those seeking to do business in Australia.

The government's legislation to implement financial sector reforms recommended by the Wallis Inquiry is currently in the parliament. I take this opportunity to point out that new regulatory arrangements are due to commence on 1 July 1998. The proposed legislation has been amended unacceptably in the Senate. The government has now returned it so the Senate can reconsider its position. It will not be enacted until it is passed in the form required to implement the new system as recommended by Wallis. Labor and the Democrats attacked the legislation not because they oppose this reform, but because they have sought to use this legislation to politically advance an altogether different issue - employee entitlements in company liquidations.

The issue of protection of employee entitlements has already been placed on the agenda of the Ministerial Council for Corporations and that is the appropriate forum to take a considered view of this issue. Financial instability in Asia points to the need for strong and transparent financial regulation. Our opponents risk delaying a set of reforms which are widely supported within Australia and recognised internationally as leading edge policy. They must think again. This is too important.

If I were a financial sector institution, I would be asking Labor and the Democrats to justify how they can seek to delay the reshaping of Australian financial sector regulation for entirely unrelated reasons. Make no mistake, the time is short and we cannot afford to let this legislation fall over because of political opportunism. A sound policy framework must be maintained and enhanced if investor confidence in Australia is to be maintained.

## Tax reform

And now more than ever, Australia must continue to work on strengthening its economy through the important economic reforms. I have spoken of fiscal policy and financial regulation. I could speak of corporate governance and industrial relations reform but I would like to mention one other area tonight – the issue of tax reform. Tax reform is an imperative on many counts. But I would like tonight to put it in the context of the tax base.

We need to modernise the tax base. I say this particularly to those interested in the social security system. You won't have a modern social security system on an outmoded tax base. If the tax base crumbles, so too will the social security system. The serious thinkers have recognised this. There is no point talking about one's commitment to social security and one's opposition to reforming a crumbling tax base. The tax base must be put on a sustainable footing.

Two previous attempts at tax reform in Australia – 1985 and 1993 – failed. In 1985 when Labor tried tax reform, they got a good deal of bi-partisan support. Since then, they have never offered genuine support in the national interest even on the proposals they themselves put forward in 1985. I regret Labor's position. It will make genuine reform harder. It does not make it less important.

Unlike 1985 and 1993, the Commonwealth Budget is now in surplus. Tax reform now is not about additional revenue. The government has no need for additional revenue. It is already in surplus. The government is about improving fairness in two areas:

- Ensuring the tax base is robust enough to fund government services: health education and the social security safety net; and
- Ensuring that revenue is collected in a fair way.

The safety net provides a direct means for the government to specifically address social disadvantage. In fact, this is its purpose. In Australia we have never seen the tax system as the sole, or even the predominant means of addressing social disadvantage. It can complement it. But this is the principal role of the social security system: why we pay aged pensions as outlays, why we pay unemployment benefits as allowances. The current Australian tax system is not efficient and is not fair. It is not fair because it was designed for a 1930s economy. While the economy has changed dramatically, the structure of the tax system has not. The cornerstone of the Australian taxation system is the *Income Tax Assessment Act 1936*. The wholesale sales tax is a tax introduced during the period of the great depression. The current tax system is designed for an economy dominated by goods with a manufacturing sector targeted at domestic consumption. This is the economy as it stood between the wars. This is the kind of economy our tax system fits. But it is not the economy of today.

Goods production now represents less than a quarter of the economy and will continue to decline. While the economy has transformed, the tax system has not. The result is that the contribution to the tax revenue from income taxation and indirect taxation has changed significantly over time. This change has been particularly marked over the last 20 years since the deregulation of many sectors of the Australian economy. Over the 1980s, indirect taxation (comprising principally excise and sales taxes on goods) represented 7.2 per cent of GDP compared to 5.8 per cent of GDP over the 1990s. In comparison, direct taxation (individuals and companies) increased from 16.4 per cent of GDP to 17.2 per cent of GDP. Over the same period, the contribution of revenue to the Commonwealth budget has also changed, with the share of indirect tax falling from 27 per cent to 24 per cent, whilst the share of income tax has increased from 63 per cent to 70 per cent.

What these trends show is that without reform of the tax system, the composition of the tax base will change automatically. By doing nothing the tax mix changes. To preserve the tax mix of today, requires reform. In a dynamic economy inaction means an inevitable rundown. Without a restructuring of the principles on which tax is collected, the Commonwealth will become increasingly reliant on income taxation directly from individuals and companies if it is to maintain government services. But not all individuals and companies. As the burden of tax shifts to individuals and companies, rates will climb. Those who have the opportunity to avoid or minimise their tax will do so. Moreover, with international economic activity becoming more integrated, the historical barriers to mobility of labour will become less important, particularly for high skilled professionals.

A relatively high personal tax burden in Australia will provide additional encouragement for skilled Australians to seek employment in other countries. Without change, not only will the burden of tax fall increasingly to individuals and business, it will fall more heavily on a smaller and smaller number of taxpayers. These will be the people who have no ability to minimise their tax: typically, low and middle income wage and salary earners and small business. And as the base diminishes, the rate of tax on the smaller number of taxpayers will have to increase to maintain the same revenue.

This unfairness is already apparent. Soon after the turn of the century, without reform, taxpayers on average weekly earnings will be paying the top marginal rate of tax - 48.5 per cent including the Medicare levy. In the 1950s, a taxpayer had to earn 19 times average weekly earnings before paying the top marginal rate. Reversing unfairness is not a matter of tinkering and tuning. It is a matter of tax design.

This is an important point to grasp. To preserve revenue on a shrinking base means increasing the rates. Those opposed to broad-based indirect tax will, if successful, end up precisely where they did in

the past – higher rates of wholesale tax and higher incidence of income tax. This is the lesson of 1993. Unfunded tax rebates or tax credits – with the additional complexity that entails – will do nothing to stop the inexorable change in the reliance of the Australian tax system on income tax. The unfairness can only be addressed by changing the structure of the tax system to adjust to the changing structure of the Australian economy and Australian society. This is what the government's tax reform program is about.

### Alternative prescriptions

There are some other muddleheaded prescriptions which are put forward as the answers to tax or economic policy. Foreign investment is currently a prime target for those who want to prey upon feelings of economic insecurity. Those who want to restrict or chase foreign investment out of this country want to reduce the number of jobs. I can't put it plainer. Less investment means more unemployment and family misery. I want to list for you some of the Australians who have jobs as a result of foreign investment: BP – 2,200 employees, Cadbury Schweppes Australia – 3,600 full time employees, McDonald's Australia – 55,000 employees, Toyota – 4,300 employees. Try telling these people that foreign investment is bad.. That this sort of policy is bad economics.

To seal Australia's borders from foreign investment and foreign trade will not make us rich:

- rich through access to fewer overseas markets for Australian goods?
- rich through less investment in business and jobs?
- rich through declining tourism?
- rich through a declining education export sector?

We will not grow an economy if we pull down the shutters and put up the barriers. To look forward, we must seize the opportunities before us.

Seizing opportunities comes back to policy. Decent hardworking achieving policy:

- budget policy
- financial regulation
- corporate governance
- social security policy
- industrial relations reforms
- tax policy

None of this is easy. And in all of those areas there will be populist attacks from the right and the left, in many cases from similar positions. Which makes reform no less important. But to do nothing is not to leave things as they are. In a changing economy inertia does not equal the status quo. Continuing economic reform is the best policy option.



Photo - David Karonidis

*Gareth Evans*

The Hon Gareth Evans MP, Australia's Shadow Treasurer and former Foreign Affairs Minister, addressed The Sydney Institute on Tuesday 16 June 1998. His address was in part a response to the third Howard/Costello Budget, as well as offering some insights into Labor's approach to managing Australia's future economy.

# VALUES AND

## *CHOICES IN ECONOMIC POLICY*

Gareth Evans

Politicians' credibility has been taking a hammering lately. Last month's Morgan Poll on the subject found our traditionally lowly repute sinking even further: only 7 per cent of Australians now rank us highly for honesty and ethics. That puts us 81 percentage points behind nurses, 49 behind clerics, and even two points behind newspaper journalists. Only used car salesmen do worse.

It's hard to argue that this widespread distaste for professional politicians and all their works was not at least part of the reason for One Nation's extraordinary, and alarming, vote in last weekend's Queensland election. Federal and state issues were jumbled up together, and a lot of the anguish was not very coherently directed. But a key element in the protest did seem to be just a cry of rage toward political elites generally. Certainly it's time for the major political parties to take stock.

One obvious set of lessons being drawn is about the need for the major parties to listen more; understand better the impact on ordinary people their decisions have; communicate better why those policies and decisions are necessary, when they are necessary; and change them when they're not. The Labor Party has already been through a lot of soul-searching in this respect since our defeat in 1996, and I believe that's reflected in our now being seen as having a serious chance of making the Howard Government the first since 1931 to last just a single term.

For the purposes of this discussion, however, I would like to explore the issue of political credibility at an even more basic level – in terms of the *values*, or lack of them, that politicians bring to the political process. My own view – which has strongly influenced my approach to the rewriting of the ALP Platform last year, and the formulation of our economic policy – is that politicians can't expect to earn respect in the community unless they stand, and are seen to be standing, consistently for a set of values: values which people can understand, values to

which they can relate as meaningful to their own lives, and values to which they can warm.

Most people do understand that values *are* in fact critical in determining the policy choices that politicians make, whether those values are clearly or honestly articulated or not, whether they are overtly part of the public political debate or not, and whether they are widely perceived as attractive or not. But I suspect people would appreciate from the major parties more open and articulate expression of the values for which they respectively stand, and, more obviously, consistent adherence to those values.

What is hard for people to relate to, and warm to, is rudderless, drifting, wet-finger-in-the-air political leadership, which is reactive and opportunistic and apparently not guided by any more elevated sentiment than a desire to win or stay in office at all costs. A symbol of what a great many people see as wrong with contemporary politics has become the GST – which John Howard swore before the last election that he would “never ever” introduce; which eight months after it, Peter Costello was still saying was “snake-oil”; but which for the last twelve months has been the tax that we simply had to have. Whether it survives the Tory wet-finger test, and retains that latest status for the next few weeks, remains to be seen.

When it comes to values, Labor has traditionally worn its heart more visibly on its sleeve than has its opponents. It's hard to deny that at various times in our history we have been racist, chauvinist and isolationist – and never especially socialist. But there have always been strong and deeply felt currents running of egalitarian and cooperative sentiment, together with a deep seated belief in the critical role of government in providing security and creating opportunity.

Our new 1998 Platform identifies the central values for which we continue to stand as fairness, compassion, individual freedom, labour rights, responsibility, democracy and community. In the specific context of economic policy, the new ALP Platform states that “The fundamental objective of economic policy is to promote the well-being and improve the quality of life of all Australians”.

The *fundamental* objective is not, you will notice, to reduce public debt to zero, or the current account deficit to less than 4 per cent of GDP, or to ensure that underlying inflation remains on average between two and three per cent over the course of the cycle. These should be seen as just means to a larger end, and the language of the ALP Platform hammers home the distinction:

Other objects of economic policy, including controlling inflation and reducing current account deficits, are not ends in themselves but means to the achievement of the fundamental objective of higher living standards. Good economic policy puts people first, matching competence and efficiency with compassion and care.

It is harder to find any comparable distillation of core values, and their implications for economic policy, in the literature of the Coalition parties. There is no comparable set of Mosaic tablets to rival the status and authority of the ALP Platform – unless perhaps one counts the collective speeches of Sir Robert Menzies. But one doesn't have to look too far to find the contrasts that have coloured the political debate between mainstream left and mainstream right for most of this century, and which colour it still, with ideological divisions currently more clearly etched than they have been for as long as I can remember.

Those divisions centre around the values of small government rather than large government; private rather than public sector; self help rather than state help; a focus on individuals rather than organisations or community; and respect for the victors in life, with reluctant charity for the deserving vanquished, rather than compassion and community support for those who, for any reason, can't keep up the pace.

All these contrasts matter much more in economic management than it often is acknowledged or understood. Where all of us stand depends on where we sit: not just we professional politicians, but the professional economists who bay at us from the public service, media and market-place. Margaret Thatcher's TINA – "There Is No Australia" – plays too prominent a role in public discussion of economic policy in Australia as TINA did for too long in Britain. Only in the most exceptional circumstances are governments locked into inevitable and irrevocable courses of action. They make choices – and they make those choices based on the set of values they bring to the particular task of government.

There are three critical economic battlegrounds on which the next election will be fought, and each of them raises starkly issues about the kind of country we want Australia to be, and choices about the role we want for governments in getting there. These arguments – about how the overall economy should be managed, what tax reform should be introduced, and whether the remaining two thirds of Telstra should be sold – are not just technicians' issues, or special interest group issues, or fuel for political wind machines. Each one of them does involve quite fundamental value choices, and if we are ever to improve the quality of public policy debate – and to do something about improving the standing of the politicians who set its agendas – it is critical that those values and choices be exposed and understood.

### **Managing the economy**

Treasurer Costello's first reaction last year to the impact of the Asian economic crisis on Australia was that it would be "barely measurable". Since then, he and the government have repeatedly claimed that the Australian economy has been effectively "fireproofed" or "insulated" against Asia: in his nursery version of the mantra, all Australia's little

pigs are safe (except maybe from Canadian and Danish pork producers) because we have built our house from bricks, not straw.

All these statements have been remarkably silly, and their unsustainability should now be apparent. We are, and are seen by the rest of the world, to be very trade exposed to Australia: in the case of Japan, of course, that has been true for a generation, and not just the last decade or so. That exposure should do us no harm in the longer run, as the different economies in the region eventually return to strong growth – as I believe they will, albeit at different speeds – chastened but institutionally much strengthened from the present experience.

But in the short run, we *are* going to be harmed. That's already apparent from the battering the Australian dollar has taken, with speculative assaults forcing it well below what most analysts think is its commodity-based real value. It is apparent from the dramatic fall away in our growth expectations and forecasts for the coming year. It's apparent from the fall away in our export markets, and the ballooning current accounts deficit. It's apparent from our rapidly escalating foreign debt: the "debt truck" the Coalition was hauling around at the last election would be better portrayed these days as a road train, with another \$33 billion worth of debt accumulated over the last two years – another \$1,700 for every man, woman and child in this country. And it's apparent from the way in which the external situation is putting pressure on interest rates to rise – at the very time that domestic activity is declining and crying out for rates, if anything, to fall.

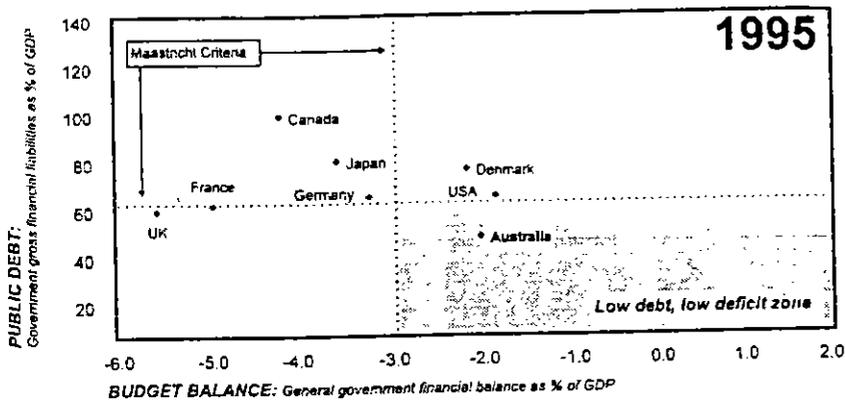
Today's Westpac/ACCI survey, showing business confidence and profit expectations at their lowest levels since the 1991 recession, should finally have exploded the myth that the Howard Government has fireproofed us from the Asian crisis.

Economic policy choices over the next two to three years are going to be quite limited for any Australian government, whoever is in power. With the return of a major current account problem, and concern growing again of a return of inflationary pressures, there is not a great deal of scope for major expenditure initiatives, even in key priority areas like jobs, health and education.

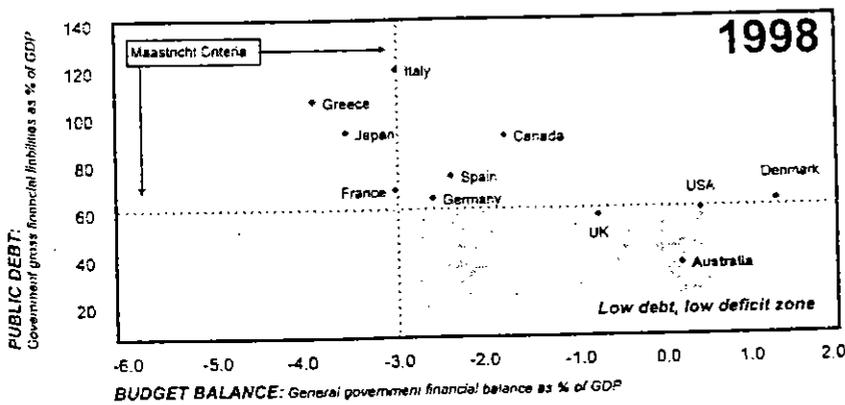
But we did have many more choices open to us over the last two years. The tragedy is that we are moving into the very gloomy period ahead with a domestic economic base very much weaker than it could and should have been. That's most obviously true of unemployment, which – back over 8 per cent – is disgracefully and unnecessarily high. But it's also true in relation to health and education and aged care and child care and industry innovation and infrastructure development, and dozens of other program areas, where we have seen a dramatic deterioration in both resources and outcomes. There *were* real policy choices available to the government over the last two years: the Coalition made the wrong ones, and we've had, as a result, two tragically wasted years,

# International public debt and budget deficit comparisons

Source: OECD Economic Outlook June 1998. Figures for 1998 are projections.



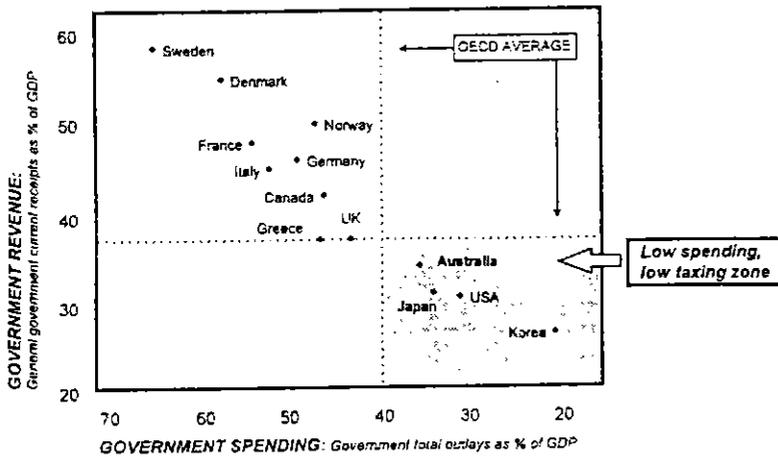
Off the chart: Other countries in the Low Debt, Low Deficit zone in 1995 were Korea (Debt 2.9; Budget balance 4.7) and Norway (43.0; 3.3). At the other extreme were Spain (71.0; -6.5), Sweden (75.8; -7.0), Italy (124.2; -7.7) and Greece (110.0; -10.3).



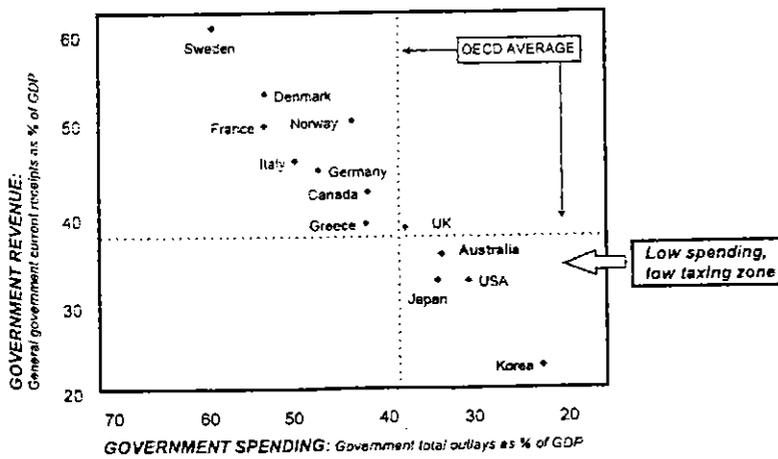
Off the chart: Other countries in the Low Debt, Low Deficit zone in 1998 are Korea (Debt 2.1; Budget balance 1.6) and Norway (40.7; 6.2).

# International revenue and spending comparisons

Source: OECD Economic Outlook June 1998



1995



1998

That there were different policy choices available is amply demonstrated by this year's Budget papers. Let me explain. Labor has been arguing ever since the 1996 Budget that there was a better way to return the Budget to balance or better by 1998-99 than by going down the path of massive, painful and growth-destroying expenditure cuts. We did not argue against the desirability of returning the Budget to surplus as soon as possible after the run of deficits which had been associated – in Australia as in so many other countries – with the recession of the early 1990s. We accepted from the outset, and still do, that it is desirable to aim at achieving budget balance or better over the course of the cycle. We did, however, argue very strongly that that result could be achieved by a much more moderate program of budget cuts: not hacking into spending by \$7 billion or more in the first year and maintaining the squeeze until it was time to roll out the pork barrel for the next election, but rather targeting cuts of just \$1 billion in the first year, building up to no more than \$3 billion by 1998-99.

The proof of that prediction is now clear for all to see in this year's Budget Papers. The government's claimed surplus for 1998-99 is \$2.7 billion: that is built on a series of policy measures, spelt out in the last three budgets and taking effect this coming year, amounting to a net outlays reduction of \$5.4 billion. Subtract that \$5.4 billion from the \$2.7 billion projected surplus, and you have the projected deficit for 1998-99 if there had been no policy changes since Labor's last budget. In other words, you have revealed in the government's own figures a starting point deficit – of \$2.7 billion – which would have been wholly neutralised by the \$3 billion of savings taking effect this year which I proposed back in 1996!

That arithmetic does not rely on any growth dividend. If the economy had in fact grown at Labor's last term average of 4.3 per cent, rather than the Coalition's average 3.2 per cent during this period, enabling unemployed to drop by now to around 6 per cent so that we had 150,000 more people back in work, it is reasonable to suppose that the additional revenue and less social security outlays that would have flowed from that state of affairs would have in fact generated a *surplus* this year of the order of magnitude the government is now claiming.

The response of the government to all this has not been in any way to challenge the arithmetic but simply to assert that Labor in government would not have gone down this path. But there is no credible basis for that assertion. Coming into office in 1983, we inherited from John Howard as Treasurer an absolutely massive deficit, as a proportion of GDP equivalent to around \$25 billion in today's dollars. Within four years we had converted that into a run of four consecutive substantial underlying surpluses – built in each case on jobs and growth, rather than on savage budget cuts.

Our priority in office was always – in accordance with the values articulated in our Platform – to promote the well-being of Australians by generating the maximum sustainable growth, creating employment and distributing income as fairly as possible. We did not always succeed on all these fronts, but it was never for want of trying. The Coalition, by contrast, has deliberately made growth and employment lower priority objectives than reducing public debt and Budget deficits and the overall size of government. Reducing public debt and Budget deficits are worthy enough objectives if you have a debt and deficit problem – but the difficulty for the Coalition is that by any objective international measures, and by any measurable standard of international concern, Australia did not in 1995, any more than it does now in 1998, have a public debt and budget deficit problem. (See attached charts).

What Peter Costello said here at The Sydney Institute last week – or perhaps more accurately, what he didn't say – was a telling reinforcement of the point I am seeking to make. It was a speech that tried to convince anyone listening that Australia's fundamentals were right to weather the Asian crisis. In this context he emphasised the strength of Australia's financial system, about which there is no disagreement. He emphasised our growth prospects, about which optimism is only possible if you look through last quarter's rear vision mirror rather than through the windscreen to next year's: according to the latest OECD *Outlook* our growth, so far from being the fastest or close to fastest in the developed world, as the Treasurer has been saying, will be surpassed this year by Canada, Finland, Hungary, Iceland, Ireland, Luxembourg, Mexico, The Netherlands, Norway, Poland, Portugal, Spain and Turkey!

The Treasurer last week also emphasised as among our fundamentals the projected budget surpluses, focusing entirely on their size and not how they have been achieved. And he emphasised the size of Australia's public debt, explaining the further reduction in the pipeline – but not the extremely low base, by world standards, which he inherited.

What was not mentioned at all by Peter Costello last week was the size of our foreign debt, which is already very high by OECD standards and growing alarmingly fast. He dismissed our escalating current account deficit as a merely temporary, transitory problem: not mentioned at all was the structural dimensions of this problem, based on our poor national savings performance, and the Coalition's broken promise in abandoning Labor's \$4.5 billion a year superannuation top-up scheme. Given the huge boost that would have meant to private saving, as well as to our capacity to generate decent retirement incomes for our ageing population, that was probably the most irresponsible single decision this government has made.

As a columnist in the *Australian Financial Review* put it all together, in two sentences, last Saturday:

The government's line on the economy is that those selling off the dollar aren't looking at the economic fundamentals. But the trouble is, they are: the current account deficit, the level of foreign debt and our reliance on recession-hit Japan.

But there were some even more telling and interesting omissions from Mr Costello's speech than those I have mentioned so far. He didn't talk at all about unemployment, perhaps not surprisingly given that day's embarrassingly bad figures. But how can all the fundamentals be right when that most fundamental right of all – the right to a job – is not a reality for at least 800,000 Australians?

He didn't talk about his government's choice to pull nearly \$3 billion out of Australian education and nearly \$1.5 billion of labour market and training programs. Those two decisions perhaps say more about the values underpinning the Howard Government's economic agenda than just about any other. How can any economy be truly "fire-proofed" – or truly internationally competitive – when it is so conspicuously failing to invest in education, skills and innovation?

He didn't talk about managing the economy to tackle inequality. He didn't talk about managing the economy to ensure social cohesion. And he didn't so much as tip his hat to the notion that good economic management is at least as much about jobs and job security, quality of life and distribution equity as it is about reducing budget deficits and public debt – particularly if debt and deficits are already, as Australia's were when this government came into office, at world's best practice economic housekeeping levels.

### **Reforming the tax system**

If competing values and choices are at the heart of economic management generally, they are even more obviously on display when it comes to tax reform. We can all agree that tax reform is a Good Thing – if Labor didn't, we wouldn't have done so much of it ourselves in office. But thereafter, where you stand, again, depends very much on where you sit.

Different values come into play, for a start, in the way the whole process of tax reform is conducted. There is a difference between an honest and open debate – of the kind that occurred with the Labor tax summit in 1985, and for that matter John Hewson's *Fightback!* package before the 1993 election – in which options are fully explored and analysed well before final decisions are made; and the cynical exercise on which the Coalition has been embarked for the last year – albeit with obviously increasing nervousness – in which neither the shape of the overall package nor any of its details will be exposed until the election is well and truly upon us, with minimum time for its impact and implications to be fully understood.

Different values again come into play in the way in which different sides of politics and interest groups address the question of the adequacy of the level of revenue raised by the tax system. There will be some for whom the government, and the tax burden associated with it, can never be too small; and others for whom government expenditure on programs and services and infrastructure can never be too great. It is a useful starting point to this debate – particularly for those minded to rally to the small government banner – to realise that Australia is the second lowest taxed country in the OECD and has the third lowest levels of government expenditure (see attached chart). Labor doesn't seek to increase the overall level of taxation – as our Platform puts it, we will “not seek to raise revenue beyond the proportion of GDP established over the past decade” – but we are certainly conscious of the costs and consequences to the whole community if that level of commitment were to be significantly reduced.

The starkest value issue associated with tax reform is, of course, who pays: the equity issue. Here there really are choices to be made, and the battle-lines have already been long joined. Labor's most fundamental objection to a GST is that it is by its very nature a tax which is inherently unfair and regressive to lower and middle income earners – those in the community whom our values make us most anxious to protect. Any flat rate tax is regressive, and the unfairness is compounded when one appreciates the large proportion of low income household budgets taken up with goods and services that are likely to be newly taxed – including food, rent, power, telephone bills and public transport.

If a GST is used to fund a tax mix shift, with income tax cuts for the rich being paid for at the checkout counter by the poor, the unfairness is massively compounded. With or without a shift in the mix, the higher the GST rate is, the more unfair it becomes, and experience almost everywhere is that a GST once introduced does inevitably rise; it's always been found politically easier to do this than to directly confront voters with personal tax increases. And the problem of fairness is further compounded when one contemplates the difficulty of compensating everyone adversely affected by a GST – through some combination of the tax system, social security system and other specific measures. People are just too different – in age, sex, health and where they live for a start – for their different expenditure patterns to be effectively compensated, and stay compensated, in all cases. There will always be major losers.

In the Labor Party's judgement, the economic arguments against a GST are just as compelling as the equity ones. There is nothing in our present distribution of taxes which is out of kilter with international averages or indefensible. To the extent that we do tax (in particular luxury goods, alcohol and tobacco) more heavily than is usual elsewhere,

and tax services less heavily, that is – as with so much else in economic policy – a matter of choice. To the extent that we continue to have a major employment problem, particularly intractable in certain regions of the country, and that the best chance of solving it lies in the services sector, not least in areas like tourism and hospitality, it doesn't make much sense to be introducing a tax which directly discourages job creation in that sector.

As to the other economic arguments, there is no correlation to which one can point internationally between the presence or absence of a GST or its equivalent and the overall health of the economy in question. There is no evidence, as Treasury Secretary Ted Evans has acknowledged, that a GST helps savings. There is plenty of evidence that it is inflationary – hardly a good reason for introducing it when the Australian dollar is under strain and the current account deficit is blowing out. On the question of the GST helping exports, there is compelling research indicating the GST will produce no helpful trade effect. In relation to the black economy, there is plenty of evidence from which to conclude that the GST will add to its size rather than generating enough revenue to neutralise it. There is the disproportionately adverse impact of a GST on small business. And there is even a serious question now being asked as to whether this kind of tax isn't already on the way to obsolescence, because of the rise of electronic commerce, which makes it very difficult to collect.

### **Selling Telstra**

The remaining big economic issue in this year's election debate is the government's determination to sell the remaining two thirds of Telstra. And when it comes to public investment – the extent and nature of government commitment to the public sector, or to the sale of public assets such as Telstra – values and choices again loom large.

The full privatisation of Telstra was hailed as John Howard's "master stroke". Australians were supposed to be entranced with his Thatcherite vision of turning Australia into "the greatest share owning nation on earth". But opposition to the sale of the remainder of Telstra remains strong – both in the city and the bush – and that is due in no small part to the link in many people's minds between the sale of Telstra and the Coalition's unabashed assault on the Australian public sector. Telstra is not an organisation Australians have held especially dear. But a great many Australians do hold dear the idea of government commitment to investing in vital public and community services. The Telstra sale is the signal to many people that here is a government that does not place value on community resources and that it is not willing to make a choice to invest in and employ those resources in the longer term interest of the nation.

There is concern about what total privatisation will do, later if not sooner, to the quality and availability of unprofitable telecommunications services in rural and regional Australia. There is concern about shareholding by foreign telecommunications companies leading inevitably to supplies of equipment at marginal cost from those corporations forcing out local industry suppliers. And there is concern about the impact generally on telephone services of a fully privatised Telstra flexing its already huge market muscle.

But the core of opposition to the sale lies in something more basic than even all these concerns – the sense that there is something inherently wrong, something fundamentally irresponsible, in selling off to a minority of Australians a major national asset that is performing an important public as well as commercial service, and which is presently owned by all Australians.

The government's loudest argument for selling Telstra tries to confront this issue. Sell Telstra, says the government, to reduce public debt – to bring it down to just 1.5 per cent of GDP by 2001-02, according to Peter Costello here last week. Sell it to save and spend every year – perhaps on tax cuts – the interest on that debt. Sell it so that maybe we can spend a chunk of the proceeds on other capital projects. But these arguments are utterly without merit. Australia does have a longstanding private saving problem, which needs further government policy attention, but we don't have a public saving problem. Australia's public debt is already, as we have seen, the second lowest in the industrialised world, and there is no economic purpose to be served in aspiring to become a zero net-debt country – any more than it makes sense for businesses and households to operate totally debt free if they can improve their welfare or their business performance by borrowing, and the debt in question is readily serviceable and repayable. Government should try to avoid, over the course of the economic cycle, borrowing to fund recurrent expenditure, but there is every justification for sharing with future generations, who will after all, enjoy them, the burden of paying for new capital assets.

If it is hard to understand where the national advantage lies in selling to a minority of Australians a great national asset that is presently owned by all Australians, it is even harder to see where the national interest lies in allowing foreign investors to take up fully 35 per cent of the shares: why should foreign interests, holding \$20 billion worth of ownership, be delivered \$700 million or so of dividends each year when those dividends could be used to make our hospitals work better and our schools work better and to get people back to work? Once Telstra is lost to public ownership, and to foreign ownership on this scale, it can never realistically be bought back again.

The most compelling argument of all is that it will be only a matter of time, and quite likely a very short time, before the dividend

stream from Telstra will in fact exceed what we are paying out in interest on the \$40 billion or so worth of debt that could be redeemed by its sale. On the reasonable assumption that Telstra dividends will, like those of most telecommunications companies around the world, continue to increase by 15 per cent or so a year, and that the bond rate on public debt will stay at around 6 per cent, that cross-over point will be reached in just four years time. Even on more cautious assumptions, like a 12 per cent average dividend increase or an 8 per cent bond rate, the cross-over would only be delayed a year or two longer. In return for a very short term revenue gain, the Australian community would – after a very few years – suffer a net revenue loss forever. That isn't good economics: it's just a triumph of small government and free market values over common sense.

A sense of loss, of the community losing out in some way over the longer term, is something most of those opposed to selling Telstra feel – even if they don't know the finer points of the debt argument. Their instinct, that it's crazy to sell off an asset like Telstra in short term grab for cash, is sound. It's an instinct based on values that are alien to the Howard Government, and one that reveals the growing gap between what the Coalition sees as the role for government and what Australians want from government.

Australians don't want to live in a "nanny state". They don't want their hands held from the cradle to the grave. They understand the benefits of competitive markets. But they do want access to the things that underpin a fair and civilised society: a decent education system, a good standard of health care, affordable child care, employment opportunities and economic security.

They don't want a selfish society where essential services are available only to those who can afford them – and they don't want a society where increasing inequality between the rich and the poor is the order of the day. In short, as Fred Argy points out in his new book, *Australia at the Crossroads*, the Australian community still favours "progressive liberalism" over "hard liberalism". Argy's conclusion – after looking at a number of surveys – is that while Australians are happy with "a reasonable freeing up of markets", they want to "draw a line on market liberalisation and contraction of the role of government". He puts the concern in these terms: can it really be said that the community is better off because of the shift from public to private investment, in a situation where we've got more commercial office blocks, motels and shopping centres, but where public investment in health, education and community services has declined?

If these are the values we want underpinning government, then there are choices that have to be made of governments in terms of public assets and public investment. We must ask ourselves the question: what constitutes a proper investment portfolio for government? Instead

of forging ahead with an ideological agenda of minimalist government, we must ask ourselves: what does government need in its investment portfolio to give it the capacity to build a successful and prosperous nation in the 21st Century?

The requirements for such a portfolio would have to include at least these:

- that it focuses on medium and long term outcomes, not short term electoral quick fixes;
- that it generates a medium to long term economic return, as distinct from a short term financial profit;
- that it equips Australia to reap the benefits from and survive the pitfalls of globalisation;
- that it contributes to intergenerational and interregional equity; and
- that it recognises the value of investing in social and human capital infrastructure, as well as economic infrastructure.

Looking at the role of government from this perspective is surely a more responsible choice than simply zealously pursuing smaller government for its own sake. Smaller government is not necessarily better government, and it does not necessarily produce an improved allocation of national resources. There is nothing intrinsically wrong with transferring the delivery or the ownership of government services to the private sector. But once governments start acting from the presumption that "private is always better than public", they deny themselves – and the community – the opportunity to invest in and develop assets and services in which the community's interests are best served by the asset or service remaining in public hands. They also deny themselves – and the community – the capacity to bring a set of values to investment decisions that go beyond the desire to reduce expenditure, or shift debt off the public books, or yield a short term financial profit.

And that, of course, brings us back to Telstra. The values many Australians are bringing to the debate about selling Telstra clearly go beyond the desire to achieve a short-term financial gain. The strength of feeling coalescing around those values is something the Coalition has manifestly failed to grasp in its pursuit of an agenda of hard-edged liberalism. It says a great deal about Australians that, rather than wanting to become "the greatest share-owning nation in the world", they appear to prefer to share across the whole community the affordability, accessibility of telecommunications services – and the dividends returned by providing those services efficiently.

There's a lesson in all of the economic policy issues I have discussed this evening, and from a number of other recent developments in Australian politics, not least in Queensland last weekend. And that is that any party in or out of government has to understand and respond to the genuine concerns of ordinary Australians – not just their immedi-

ate financial concerns but their concerns about the kind of country they live in – or that party just won't be in business.

We in the Labor Party believe that the values that move most Australians are the values that move us: supporting a society which is cooperative and compassionate, giving priority to well-being, quality of life and employment opportunity for all members of the community; giving real weight to public goods and the idea of public service; and giving priority to long term satisfaction rather than just short term gratification. We don't think that most Australians want to live in a society that is confrontational, divisive, focused on private gain rather than public good, and indifferent to the pain and humiliation of those who fall behind.

If we are wrong about this, then it may be that – to quote, as I often do, the immortal words of Dan Quayle – “If we don't succeed, we run the risk of failure”. But at least it will have been an honourable fight, and we'll be able to do what so many politicians – fairly or not – have been for so long accused of not being able to do, and that is live with our own consciences.



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Photo - David Karonidis

*Sir Leon Brittan*

Sir Leon Brittan, writer, Conservative MP for Cleveland and Whitby and later for Richmond, North Yorkshire until 1989 and now Vice President of the Commission of the European Communities, visited Australia as a guest of the Australian government in June. Sir Leon addressed The Sydney Institute as part of that visit on Monday 22 June 1998. Sir Leon's visit to The Sydney Institute was made possible by the Delegation of the European Commission to Australia and New Zealand.

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# THE FUTURE OF

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## *EUROPE*

Leon Brittan

It gives me great pleasure to be with you here this evening back in Sydney. I've been some time now in Brussels in the European Commission and therefore I think I can take not just a snapshot view of what's been going on in matters relating to Europe, and in particular the evolution of Europe's relationship with Australia, but also look at them in the context of two major changes that are in the pipeline.

Europe is very much on the move at the moment. Even those who have been interested in European affairs and followed it quite closely over a period of time, may perhaps not fully appreciate the extent of the change. It's very different from when I first arrived in Brussels nearly ten years ago. What have we seen since then? One of the first tasks that I was given was to help with the job of completing the creation of a single market. A Europe in which there would be free movement of goods, services, people and capital. We have implemented that and it has made a dramatic change to the European economy, creating a single market which is the largest in the world.

I believe that we have seen a sea change. Europe has opened up to the outside world to such an extent that the label "fortress Europe" is rarely heard and even more rarely justified. There has been a dramatic internal and external liberalisation.

Internally, it's not been just a question of removing barriers of a formal kind but also of opening up the market in areas such as energy and telecommunications. There used to be national barriers very often associated with large publicly-owned corporations delivering those services that had a monopoly position which was legally enforced. All of that has changed. Privatisation is the order of the day and where privatisation has not taken place other new enterprises have been allowed on to the market to provide competition and to do so not just within one country but across national borders.

Externally, Europe has participated very vigorously in the Uruguay Round. It has also led the way in liberalisation of trade internationally, in the area of telecommunications, in the area of financial

services and in the area of information technology. Today the image of a stodgy, bureaucratic European Union has been bypassed and overtaken by events. That is something which needs underlining overseas and even within parts of Europe. The full measurable change that has taken place has not been adequately appreciated. Nowhere is that truer than in circles within my own Conservative Party in the United Kingdom which, either wilfully or through negligence, fail to see the changes that I refer to.

So much has changed in Europe since I began there just ten years ago. Apart from the radical changes that have taken longer to mature, there have been more specific events in the last couple of years. As you can imagine if you look at change in the European Union today the scene is dominated by the creation of economic and monetary union which is now a certainty. Even those who don't like it, and those who have anxieties as to how it will work, don't dispute the fact that the decisions have been taken and it is going to go ahead in 11 out of the 15 countries on the first of January 1999, barely six months from now. That was not something which I would have been able to tell you with confidence even six months ago. And if you had asked me a year or eighteen months ago and I gave an honest answer, I would have had to tell you that I couldn't be sure that it would happen on time even with a smaller number of participants.

It's worth asking the question how has it come about that now we are there? The reason is of great political and economic importance. The explanation is that a number of countries have taken internal political and economic measures which have enabled them to meet the rather stringent criteria that were laid down for participation in the single currency.

If you look at countries such as Spain, Italy and Portugal, you find low inflation and low interest rates and massively reduced budget deficits. All of which would have been unthinkable five or ten years ago. Those are, of course, extremely beneficial changes as far as the economies of those countries are concerned. But they have only come about because the governments of the countries concerned have known that if they weren't prepared and able to make those changes, they could not participate in economic and monetary union. And it's a very interesting thing that the attraction of joining the economic and monetary union, and the anxiety not to be left behind, has been so great that countries have been prepared to make difficult changes which they previously could not even contemplate. This is not just a question of achieving numbers in an accountancy sense to bring those budget deficits down. You very simply have to either increase taxes or to reduce expenditure or to stop borrowing and that is something never easily done.

So the question that we now have to ask is, what is needed for Europe to thrive once the euro is up and running? The emerging consensus is one that shows a lack of complacency of a rather refreshing kind. I don't believe there is anybody who thinks that having achieved the target or having hit the target once, you can bounce off it and not worry because the euro will be up and running. Everybody is aware, not only that you have to maintain the efforts that are required to continue having fiscally responsible policies to enable the currency to succeed, but also that to maintain the currency it will be necessary, and indeed inevitable, to make further structural changes in the European economy. For example, to make the European labour market more flexible, to reduce the non-wage cost of employing people. And that will have to happen because the alternatives that were previously available of high borrowing when you got into difficulties or of devaluing the currency when you got into difficulties, will no longer be available. One of the conditions of entry into the single currency is that high borrowing at the expense of other countries will not be permissible. You won't be able to devalue because by definition there will be nothing to devalue. In those circumstances people will have to make the structural changes that are needed and that will be an excellent thing. Just as the creation of economies, based upon financial viability and sensible fiscal policies, has been beneficial for its own sake and not just as a way of preparing for the single currency, so I believe that the making of further structural changes is something that will benefit the economies concerned.

What effect will that have on the outside world? As long as Europe remains as open as it has become, the creation of the single currency will be beneficial not only for us but for our partners. It will be beneficial for our partners because a stronger Europe provides a better market for goods and services whether from Australia or from anywhere else. A stronger Europe provides better opportunities for Europe to invest in whether it's from Australia or elsewhere. At the same time it is likely that the effect of the European currency will be that there will be a larger proportion of world trade denominated in euros and there will be an increase in the tendency for countries to hold some of their reserves in the form of euros.

Europe will have the capacity to play a large role on the world financial stage. Whether it chooses to do so remains to be seen. It would have to create the institutional capacity to do so. Imagine in a year's time some important and significant difficulty affecting some part of the world that matters to all of us. For example the problems which Japan has been encountering. Imagine this has elicited a response from the United States in the form of intervention in the foreign exchange markets in support of the yen. In a year's time, if that were to happen, Europe would be in a position, through the single currency, to do the

same if it wished to. It would have to decide whether to do so or not but it could do so in a way that it can't now. And that is very, very important for countries in this part of the world – for Australia and others – because it means that the solution, or the contribution for a solution in any future crisis, will not just depend upon decisions in the one centre of power, Washington, but will also depend on decisions within the European Union.

In addition to the consequences of the single currency there is another great development that has taken place in the European Union. That is the beginning of the movement towards incorporating within the European Union or members of European Union, countries of Central and Eastern Europe, countries that were formerly under communist dictatorship. We are negotiating with five Central and Eastern countries and also Cyprus. We are also in the process of developing the preparation for membership of the European Union of the other countries of Central and Eastern Europe, although we haven't started formal negotiations with them yet. We are helping them to align their policies to ours. We have opened our borders in the case of industrial products and in every other way too we are preparing them for membership of the European Union.

When that happens, the European Union, I believe, will have changed quite considerably in its geographical orientation. But also in more than that. And here again I say that one of the consequences of a large group will be that this will be beneficial for outside countries such as Australia. A stronger and larger Europe will provide a greater area for Australian exports and also a greater opportunity for investment from Australia. It will also have other consequences, in the case of Europe itself, because in order to be ready for enlargement change is necessary internally. There are a number of examples. Reform of the Common Agricultural Policy which will bring agriculture closer to the market and reduce support for production, replacing it increasingly with support for people. That is something which will be welcome to our trading partners.

There will be arguments as to how far and how fast, we should go. And although we are doing that for our own internal reasons bringing about change which is necessary, we also will meet Australia, Japan and other partners on the world stage in negotiations on agriculture. And in other areas as well, from the end of 1999 onwards. And we shall meet that rendezvous. We shall be ready to participate in those discussions and we shall put our offers on the table when the time comes. But we will not be ready to accelerate that time table. It is a date agreed internationally. For centuries agriculture has been woven into the tissue of European life. It is the engine that created the landscape which is so much admired not only by our own citizens but by visitors to Europe. We should not use that as a pretext for doing nothing, but we have to

take care as we do change. That is not a pretext for failing to meet that rendezvous or for not being there. We shall be there but you must understand it if we take trouble to proceed in a way that has not got unacceptably damaging consequences.

We have also been developing our bi-lateral relationship with the United States. We have engaged very closely with China. We have played our part in handling the Asian crisis. We have contributed enormous resources in this task. Thirty per cent of the IMF, standing resources come from Europe. Much more than the US and Japan combined. We have provided technical assistance. We have created a trust fund with the World Bank. We have provided a network of experts to help in the process of financial supervision in those countries that need it. And above all we have taken the lead in ensuring that the countries of Asia do not make the mistake of responding to the crisis that they have suffered by moving in a protectionist direction. That will not assist them in the process of reform anymore than going down the direction of protectionism will assist Europe or assist Australia.

All of us, whether in Asia, Australia, or Europe are subject to pressures from those who find change uncomfortable. To respond to that feeling of insecurity and instability some people call on us to go back to the old days and the old ways of protectionism. Whether we are talking about Europe or Asia or Australia, doing that is to go down a dead-end. It is to go down a dead-end because in today's world the industries of the future, on which our prosperity will depend, require a market larger even than Europe alone can provide and certainly larger than Australia can provide. Therefore if you resort to protectionism and elicit, as you will certainly elicit, a response in the form of other people raising their own protectionist barriers, you will suffer most in those industries and areas where your future lies. You will suffer most in the industries of the future and condemn yourselves. We would be condemning ourselves if we went down that route to defending an increasingly shrinking economy. The consequences would be that we would all go down the plug hole together.

That does not mean that the concerns of those who are worried about the instability of a rapidly changing world should be cast aside with scorn or dismissed with contempt. That is an inappropriate way to respond to the concerns of significant numbers of our fellow citizens in Europe or in Australia, in Asia or anywhere else. We have to show understanding for those concerns. We have also to assist those who have to endure change although it may be very uncomfortable for them. We have to assist them by making it possible for people at a suitable age to retrain. And help people to adapt in every possible sort of way. That in turn requires resources that we simply wouldn't have if we had a contracting economy driven by a protectionist agenda.

Australia and Asia have to work together to persuade people. I welcome the fact that Australia has joined Europe in supporting a new millennium round of trade talks and liberalisation. But I'm under no illusion about the necessity and importance of continuing to make the case for going down that direction with people in Australia and in Europe and in other parts of the world. It is a case that needs constantly to be restated because political pressures to abandon it will always exist.

Asia will resume its growth path. Nonetheless what has happened has enabled Australia to see that an exclusive or even excessive concentration upon Asia is something which is not in your interests. The potential of Europe is greater than it has been in recent years and the market is there. It's yours for the asking. Australian wine exporters have increased exports to Europe seven fold in a matter of half a dozen years. The new development that I refer to in Europe such as the single currency and enlargement have made the opportunities greater than ever there.

I come to Australia at an opportune moment to point out what is going on in Europe. Both because of that and because of the problems in Asia, it is right for Australia to think again about its relationships with the European Union. Let us re-think what we can do. If we do that in a cool but enthusiastic way, we will each find that we have more to offer each other than perhaps we have realised in recent years.

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Photo - David Karonidis

*Frances Cairncross*

Frances Cairncross is the author of *The Death of Distance – How the Communications Revolution will change our Lives* (Orion Business Books). She is also Senior Editor with *The Economist*. Cairncross sees a world where time zones will matter more than miles; where culture, language and interests bind communities more closely than geography – in short the death of distance. Frances Cairncross addressed The Sydney Institute on Tuesday 30 June 1998.

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# THE COMMUNICATIONS REVOLUTION

Frances Cairncross

The death of distance as a factor in the cost communications is going to be one of the most important, if not the most important, factor shaping society and the economy in the first half of the next millennium. And the reason is the enormous power of technology, to drive and influence social change. I'm going to give you two ways to think about the communications revolution that's taking place. And then I'm going to say something about what its big impacts are going to be. This is a revolution which is happening with extreme speed and generating extreme levels of uncertainty. The nature of the revolution has the effect of speeding up the whole process of innovation and the introduction of innovation.

Now one way to think about all of this is as three big transport revolutions which have taken place over the past couple of centuries. The first was in the cost of carrying goods, driven, of course, basically by the technology of the steam engine, which created the railway and the steamship. You will all know, if you have read Geoffrey Blainey's, *The Tyranny of Distance*, to whom I give a big vote of thanks for his splendid title idea, how important to the development of Australia was the change in the cost of shipping goods. The fall in the cost of shipping influenced the growth of wool exports and later the growth of meat exports. It created, to a large extent, the structure of the Australian economy and settlement pattern in the closing years of the last century and the early years of this century.

The second revolution this century was in the costs of transporting people. You can see what has happened to the New York to London airfare, one way, in the second half of this century. It is a similar story with the cost of owning and driving a car. The technology, which has given to millions of people a degree of personal freedom and personal liberation on an extraordinary scale, at the same time shaped our cities and our lives to an enormous degree. A lot of you probably wouldn't be here tonight if you didn't have cars. This would be a very different looking city without cars and so on. In all sorts of ways our lives have

been changed. I certainly wouldn't be here tonight if it weren't for this revolution. It has affected the shape of companies, the shape of modern multi-nationals with their jetsetting executives, the shape of modern tourism, the way in which the Olympic Games will be financed and sponsored, the impact on the economy of this region, and also the pattern of immigration.

These technologies have been tremendously important. The third revolution is in the cost of transporting ideas and information around the world. What makes that particularly important is that ideas and information are the raw materials of economic growth. They are what drives economic growth. They are also what drives improvements in human welfare. We can see this aspect is going to be of phenomenal importance in the years ahead.

I promised you a second way of thinking about all of this. It is basically the convergence of three well established technologies – the telephone (a technology that's more than 100 years old), the television which has been around since before the second world war and the computer. The key point is that these three very well established technologies have changed, in some ways, remarkably little since they were first developed, but are now converging and thereby being transformed.

The biggest change in the telephone so far is that it has become mobile, and we carry it around. Today, more than half of all new telephone subscriptions around the world are to mobile not fixed telephones. The television? Once you've said colour and cable, you've said just about everything. Television has been a phenomenally successful innovation. Just about all the extra hours of leisure gained over the years, have been swallowed up in watching television. It's been an amazing invention from that point of view.

The computer is probably the invention that's changed most. A number of changes are really important here. The ratio of the power of the computer, its computing capacity, to its cost has gone on improving year after year after year. That effect has made it possible to develop a computing power which you could put on minute pieces of material. It will allow the mobile telephone to become smaller and smaller, the television to become more and more capable. The modern Nintendo game already has as much computing capacity contained in it as did the main processor on board Apollo 13.

The second big change to the computer is the coming of the Internet. What is the Internet? Well the Internet is basically a way for computers to talk to each other. Effectively it's a common language. Before it came along, only computers which were on the same proprietary standard as other computers could talk to each other. Now PCs can talk to other PCs, computers can talk to computers. That has the effect of making the computer an infinitely more useful object. No longer is it something that just sits on your desktop and which you use

as a sort of souped up electric typewriter. It can actually communicate, get information from other computers from around the world and send information to other computers around the world. That is extraordinarily important.

Another change in the computer has been the way more and more information can travel along quite an ordinary, old fashioned copper wire. If you are, linked up to the Internet at home, you may have had the remarkable experience of plugging your computer into a telephone socket and listening to the radio on it, or watching television on it, or even making a telephone call on it. Nowadays you can use the telephone wire attached to the computer to watch television. That is basically because it has become possible to compress and compress and compress information. At the same time, on long routes, the development of optical fibre cable, which has huge power to carry information, has meant that the extra cost of sending information an extra mile is as near to zero as really makes no odds. You can see it happening here. The cost of sending information will collapse and its capacity rise.

That is really important. It now is effectively costless to send information on many international routes. You can see this at work in, for example, the fact that British Telecom switches calls in the morning through New York. And even when you've swiped your Barclay card or your Visa card through one of those machines in a store in London, the message may well travel across the Atlantic and back in order to reach the computer in midlands.

Now the effects of these changes on the world are not obvious yet. There are many lags between the development of the technology and its effect on cost, with the effects on costs coming through into an effect on prices, and then a very long lag before there is an effect on people's behaviour that really permeates and infiltrates right through to society. There are long delays, and the long delays, of course, are influenced by people's willingness or openness to adopt new technologies, or the speed at which the price changes.

Now I'd like to sketch out for you a few ideas on the long term impacts of this revolution in communications that I've been describing. I'll look at the effects on companies; on the economy; on society and culture; and on governments.

First there's the impact on companies. Marketing will probably be most affected, at first. Every time you undertake any electronic transaction, whether it's making a phone call, giving over your phone call or looking at a site on the Internet, you leave a trail of electronic information behind you. And the Internet itself is probably the most marvellous way of collecting information about people that's ever been devised. Huge amounts of data are now available for companies to use, if they can work out how to use them. For most companies, the big nightmare

now is what do we do with all this stuff we know about people? How do we make some use of it? How do we turn this into sales? It's very hard.

Among the changes we're going to see will be a separation, in the case, for example, of television, of the mass market for entertainment from the personalised market for advertising. There are already technologies in existence which would allow you when watching for example, the World Cup, to view an advertisement which tells you what's on at The Sydney Institute, which the machine will know you actually happen to be almost uniquely interested in. So we're going to see the personalisation of advertising, much more than in the past.

We're also going to see an attempt to turn customers into clubs. It will offer a way for companies to know where consumers are that are interested in their products. It will try to harness their loyalty. If you want an example of that, you can go look at the website General Motors puts up for Saturn cars. The Saturn car owners have a rather artificial club which allows them to find out, on a future visit to Idaho, where the nearest Saturn owner is so that they can go and engage in meaningful conversation about the joys of owning a Saturn car.

Another area we're going to see changed is commerce. You will have heard a great deal about electronic commerce I imagine. Business to business commerce, for a very long time to come, is going to be far, far bigger than the retail sort. The retail sort will grow, but business to business will be hugely larger. Why should this be true? Well I can think of lots of reasons. Among them is the fact that some aspects of shopping, retail shopping, are actually fun. I speak as the mother of two teenage daughters who tell me that the most enjoyable way to spend a Saturday afternoon is cruising down the shops in Bond Street. Now not many purchasing managers of large companies would tell you the most enjoyable way to spend a Friday afternoon was buying another batch of Wheaties that he needed for the shop floor downstairs. There's a very big difference in attitudes. And this is going to be quite important.

The impact on economies will also be a very important factor. This is a technology which will help drive the whole process of globalisation. Already we've seen, in the past 50 years, a remarkable period of peace, something like the last years of the 19th Century where economies become more and more interdependent. This was slashed to pieces by the coming of the First World War. It's happened again in the second half of this century and let's pray we're not so stupid as our grandparents were.

In periods like this, globalisation drives technological change. Particularly in transport technologies. The benefits that accrue mean returns on earnings from innovations in this area become very large indeed because they can be sold round the world. At the same time technological changes reinforce the process of globalisation.

There will be an acceleration of globalisation. But in different areas. For example, one important effect will be that just about any activity you can carry out using a keyboard, a screen and a communications link or a telephone line, almost any activity of that sort, you will be able to locate, pretty well, wherever you want. It could be a call centre answering people's inquiries about flight times or answering their inquiries about hotel bookings. It could be a stock broking service which only really needs a screen and a computer. It could be a newsletter giving you information. It could be a pornography service allowing people to call up all kinds of dirty pictures. All those services need very simple technology, and of course, willing buyers. But you can locate them just about anywhere. And that is going to have a very big effect on the world's economies.

Output will less and less be things you can drop on your toe. Increasingly it will be the sort of things you can manufacture, just using a keyboard and a screen – information, ideas, telling people something, giving people something that they read or look at. These will grow fastest. And not all of them are so detached from the physical world. For example, the car now contains huge quantities of little chips and bits of computer which do all kinds of things you don't really need it to do, but it allows manufacturers to charge you a bit more for it.

There's going to be an effect on competitiveness. There are, for example, software manufacturers in India, who get the bugs out of broken or damaged software while the Californians are asleep. The Californians come back to work in the morning and their software has been fixed. That's an example of using timezones as a competitive advantage. There's a company here in Australia that switches on building systems in South Africa. It can do that because it's in the right timezone. And it's morning in Australia before it's morning just about anywhere else. Your only serious competitors are going to be New Zealanders and perhaps some of those obscure Pacific Islands.

Then there is going to be an effect on jobs. A lot of people worry about the way information technology destroys jobs. It's easy to see when the jobs disappear. There are headlines in the newspapers saying "3,000 Jobs Gone". It's a great deal harder to see when the new jobs appear. But if you just look at the American economy today, it's employing more people than ever, creating more jobs than ever before. And it's the biggest investor in IT, anywhere. You can, I think, put two and two together and say that some jobs go but a lot more jobs may materialise.

There is an effect on incomes too. Some people will find themselves selling their services in a global market. A Finnish friend recently came to visit me. She told me that in the St Petersburg region in Russia, manufacturing employees are paid something like one sixth as much as Finnish manufacturing employees. But Russian programmers

there are paid just about as much as Finnish programmers, because, of course, Russian programmers can sell their services to much the same market as the Finnish programmers can do. And also of course, they know what the market looks like because they can track it on line. The global distribution of some incomes will equalise as world job markets emerge for some skills. But the domestic distribution of incomes will become wider as people who don't have those skills lose ground relatively speaking to those who do.

In terms of the impact on culture and society, here are three things that may happen. The roles of the home and office are going to change; new communities will form; and the role of English will grow. Not all of us are going to work at home and just telecommute all the time. There will be many whose office will be their car or their van, or indeed who have an office in a box, a laptop that they carry around and work on in airport lounges, or in their customers' offices, or their customers' homes. The mobile office is going to be more important.

The things that we do in the office will change. The office will be where we catch up on the gossip, where we network, brainstorm, take a friend or a client out to a meal, do all the sort of creative, social things that work involves. The more boring things, the more routine things we may well increasingly do at home or on the move.

We're going to see the rise of new communities. For a long time the main users of the Internet were academics in universities. Now academics in universities are, basically, very isolated small businessmen. If you are the professor of Slavic languages at a Midwestern American university, you probably don't have many people in the staff canteen with whom you can discuss the frightfully exciting Croatian verbs that you've been working on that morning. On the other hand, go on to the Internet and you will find fellow Croatian enthusiasts scattered around the world. You have a horizontal global community, a bunch of friends to talk about what really matters most to you. We will increasingly talk to the people we know round the world who share our professional excitements.

Some of these new communities will be people from the diasporas. More people are living outside their original homelands than ever before. This revolution offers an extension of their home community. I met a group of Scots in Glasgow a month ago, who were trying to harness the Scots in America. They wanted them as a sort of marketing organisation for Scotland, creating a sort of Scottish Intranet. On the other hand, the Pakistanis in Bradford, who for two generations have gone home to find wives and husbands will now have an electronic marriage market.

English is already in a unique position. It's already a language more spoken as a second tongue, than as a first. No language has ever been in that situation before. This will continue. English will be the

language of business, the language of entertainment, the language in which people of different nations communicate with each other. They'll still speak their local languages. Indeed that may be reinforced as linguistic communities around the world are reinforced electronically. But English will be the esperanto of this new world.

What about the impact on government and the nation state? Lots of Americans think we're going to have online voting. Having just had your amazingly complicated voting system described to me, I think that it might be a good idea if you had online voting. Then voters could look up a crib sheet and try and remember how on earth the whole thing works before they cast their votes. But seriously, I don't think we're going to see widespread electronic voting, voting from home, armchair pushbutton voting on the issues of the day. We may, though, start to see companies, for example, getting their shareholders to vote electronically or clubs setting up electronic polling of various sorts. We're going to see the electronic world increasingly as a way of harnessing issues that people want to push.

When people can locate anywhere, when jobs with companies become more footloose, it will be harder for governments to tax them. Not impossible, but harder. This will encourage a shrinking of the size of the state. It will also encourage competition for taxpayers. The government pitch will be to provide the best quality of service relative to the level of tax, the lowest taxes for the best services. Not necessarily the lowest taxes full stop, but the best services for the lowest tax. That will be the sales pitch which a growing number of countries will implicitly offer companies and individuals.

There will be effects on the productivity of the public sector. This technology is a great way of saving, of improving the efficiency of service industries. Just think of what has happened to banking and how you can phone and make a bank transfer without actually having to stand in a long line at your bank. Government, the king of the service industries, will eventually benefit from the biggest changes in efficiency that take place.

The size of countries may be affected, as well as the size of the states. Large nations have had advantages in the past from the fact that they have large markets in a world where trade barriers are high, and where the costs of communication and transport are high. As trade barriers and the costs of communicating and transport come down, those advantages diminish. It will become less of a handicap to be a small distant country, than it has been in the past. You may not think of yourselves as a small country. But in the world league, you're middling sized.

Now I've talked in rather optimistic terms about these changes. But I admit there will be problems – most of which being with a "P". Policing is very much bounded by geography. Policing is what countries

do. Countries set rules that apply to their citizens. But this is a technology that transcends borders and therefore it's a difficult one to police. It's also a world in which the public and the private domains, which we have always regulated separately, will merge together. Up till now we've had a different set of rules for what you can say in a television show, and what you can say in a letter to a friend. That's increasingly going to blur, and it's going to be very hard to regulate.

Pornography is shorthand for the differences in standards round the world. What shocks the Saudis is old hat to the Americans. And probably vice versa. It's difficult in a world where common content is available to have ways of making sure that some people see what they want, and others don't, and to make sure that people put up nasty things that others think they shouldn't look at.

It's going to be very, very difficult to maintain privacy. Increasingly you're going to embody your identity. Machines will recognise your voice, machines will recognise your retina, recognise your fingerprint, recognise your signature. They won't always get it right, but increasingly they will. It will become impossible to escape from your identity. That has implications for things like immigration control and crime control. The tradeoff we all have to decide on will be how much we care if there's a loss of privacy if what we get in exchange is a more regulated, disciplined society.

This is going to be a world where value is increasingly incorporated into intellectual property: ideas, information, innovation, good thoughts and creativity. That kind of property is much easier to copy and to steal than the drop-on-your-toe sort of property. Protecting that is going to be very difficult indeed. So there are certainly problems down the road.

Who are going to be the winners? There are genuinely going to be more winners than losers in this world. The reason is, as I said earlier on, we're talking about a transformation in the availability of the raw materials of economic growth. The world becomes richer, and welfare increases faster, than would otherwise be the case.

The distant are going to be among the winners and you're the distant. Your handicap against the centre is going to diminish. The young will be winners too: a young consultant in America told me a little while ago that it was terribly hard "retrofitting middle aged people". And the skilled and creative will be winners. There will be a big premium on a constant flow of bright new ideas. Niche players? They will win too. This is a world of infinite niches. You can have as much material up on the Internet as you want. There's no high street to limit how much you can put out there, to limit the number of stores, to limit the number of products in the window. They're infinite.

Biggest of all winners: the United States. The communications revolution guarantees that America will be the top nation through most of

the first half of the next century at least. What are America's advantages? Entrepreneurism; experience with using credit cards (the credit card is going to be the global money of this new world); the biggest software industry; its biggest entertainment industry and experience of competition in telecoms and competition in television.

Let me give you a final analogy. Take a car, in 1910. If the people driving that car were put at the wheel of a Mondeo today, they would roughly know how it works. They'd know it had a steering wheel and brakes, and something about the engine. Not everything, because it's been refined in the intervening 90 years. Still they'd know quite a lot.

The technology of communications is at the 1910 stage today. We know roughly what the technology will look like. But what we don't know is what those guys didn't know, the way in which the car changed the world, the way in which this technology will, in its turn, change the world in the century to come.

But let me, in conclusion, give you a good reason for taking what I said with as much salt as you feel appropriate. Journalists do not have a perfect record in predicting the future. And I wouldn't pretend to be better than the rest.



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Photo - David Karamidis

*Jocelyn Newman*

The Hon Senator Jocelyn Newman, Minister for Social Security in the Howard Government, has directed a massive overhaul of the social security system. To discuss the challenges of two years of reform, and those of the Howard Government, Jocelyn Newman addressed The Sydney Institute on Monday 6 July 1998.

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# **THE COALITION**

## ***AS A REFORMING GOVERNMENT***

**Sen Jocelyn Newman**

I have chosen a theme of the Coalition as a reforming government. Although I intend to concentrate on my own portfolio – social security and the important area of welfare reform – that needs to be seen in the context of the government's wider reform agenda.

### **Economic reform**

Recent events in our region have not left us untouched, but we are well prepared to face the challenges of the Asian economic crisis, especially in the areas of trade and tourism. I believe if we had not taken hard decisions early on to get our economy back on track, we would be facing much worse danger now.

When the Howard/Fischer Government came to office the number one priority was reduce the Budget deficit. It was unsustainable. We had to get both inflation and interest rates down. We've succeeded on both fronts. We have turned a massive deficit into surplus and achieved very low inflation. Interest rates have also been reduced dramatically and we have introduced a Charter of Budget Honesty which provides a framework for greater discipline, transparency and accountability in fiscal policy.

### **Industrial relations**

Our record on economic reform is matched by the steps we took to improve the industrial relations system. The Workplace Relations Act provides for a more flexible and efficient labour market which allows for growth, new enterprise, reduced costs and more jobs. And it's only growth in real jobs which will end the scourge of unemployment and ultimately provide the economic security and prosperity for which Australians strive. The new legislation has been basic to enable us to tackle the difficult issue of waterfront reform. The introduction of internationally competitive standards will ultimately translate into improved living standards, more jobs, a stronger export culture and reduced foreign debt. Two more difficult reforms, namely gun control

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and indigenous title rights have been achieved and shortly we will be announcing our proposals for tax reform.

### **Taxation reform**

The Prime Minister recently said:

The greatest piece of unfinished economic business remains the need to improve and modernise Australia's taxation system. Every Australian knows the current system is ramshackle, unfair and a hindrance to exports, jobs and better living standards.

Some would argue, in the lead up to an election, we are taking a risky course in meeting this challenge head on. My response is we would not be serving Australia's best interests if we abrogated our responsibilities here. The current system is not appropriate to a modern dynamic economy. Our rates of personal tax are too high. We have messy, inconsistent wholesale tax arrangements, as any retailer, lawyer or accountant will confirm. We do not give people incentives to earn more or to save, and we allow wealthy people to avoid paying a fair share.

Although the debate so far has centred on the GST, for low and middle income earners especially, the interaction of tax and social security can be very unfair. We have an amazing situation where a family earning \$30,000 a year can be *worse off* than one earning \$20,000.

Although I can't reveal the details of the government's tax package, I want to emphasise the five tax reform principles on which it will be based. They are no increase in the overall tax burden, reductions in personal income tax with special regard to the tax treatment of families, looking at a broad-based indirect tax to replace some or all of the existing indirect taxes, compensation for those deserving of special consideration and reform of Commonwealth/State relations.

### **Social security reform principles**

Turning now to my own portfolio. As some of you will know I came into this job with a background in defence policy but none whatsoever in social security policy. I was talking to Peter Baldwin, my predecessor, only a couple of months ago and although from the left and right of politics, we were agreed that this portfolio has the most fascinating mix of policy and the nuts and bolts of a very complex administration. Two years down the track much has been achieved in reforms to both the policy and the administration.

The government's welfare strategy is twofold. We are committed to providing a broadly based safety net for those in need. At the same time, we have introduced positive measures which encourage people's economic and personal independence. Where possible, we ask people to give something back to the community for the support they get. In return for support, we also expect people to tell the government the truth about their situation. This way, they will only get what they are

entitled to. I have a personal commitment to maintaining the welfare safety net for the genuinely needy. But I don't support the "hammock" mentality where some people have come to expect the government will provide first, last and always.

Our policies are directed towards encouraging people to financially provide for themselves and their families to the maximum extent possible, before turning to the taxpayer for support. We believe being in paid work will always give the best outcomes for individuals and their families. For many unemployed people getting a job offers the only real way out of poverty. When I took over this portfolio I identified three areas in need of fundamental change. First, the system had become too complex and bureaucratic and there wasn't enough focus on individuals' needs. Second, in looking at simplified policies, making them fairer and improving their delivery, it was vital we listened more to the community. And I believe people looking for help deserved to be treated with dignity, not just as faceless numbers in a queue. Third, we had to make sure people got what they were entitled to, no more, no less.

### **Simplification of the social security system**

Our income support system in Australia is unique. It is non-contributory and funded from general taxation revenue, on the basis of need. We can be proud of our position as a world leader in the provision of welfare support, and commentators should take care when comparing us to other countries, most of which have insurance based systems. But our system is by no means perfect. The first Social Security Department was set up over 50 years ago. Successive governments implemented policies which responded to particular needs at different times. What may have seemed visionary policy then, doesn't necessarily work now.

The system does not fit properly with the demands of our modern and changing society. The sheer volume of rules have made it hard to administer the legislation. The computer system was becoming unwieldy and overloaded because of the number of complex calculations and rules applying to different payments. There have been problems with compliance because people don't understand their obligations and entitlements. I believe the legitimacy of the social security system can be threatened if the community cannot understand it, or they perceive it as arbitrary and inconsistent.

Let's not pretend that one term of the Coalition government can fix this overnight. We are faced with a system where rules and conditions for different payments often do not reflect the needs and circumstances of people needing help. People with similar needs get different treatment on different payments. There are gaps in coverage so that some people in genuine need are not eligible for any assistance. I can

assure you, however, the "running repairs" are behind us, and I have started a program of real reform.

Let me give you an important example. This July, the new Youth Allowance replaced five different payments for young people. The Youth Allowance is now the same amount whether young people are studying, training, out of work or sick. Most importantly, it removes the incentive where, because of a disparity in payment amounts, unemployment was becoming more financially attractive than education. It is a major social policy reform and has taken us two years of hard work to achieve. I'm proud of the outcome and very much value the strong endorsement which the Youth Allowance was given last week by Dr Helen Hughes from the Centre for Independent Studies. I was also pleased to see that Mark Latham acknowledged the importance of younger people acquiring education, training and skills in a rapidly changing economy.

A less momentous reform, but significant nevertheless, is that in July next year over five million Australians will be encouraged to choose the day on which they're paid. At the moment people on Pensions and Family Allowance are all paid on Thursdays. This means there is too much pressure on the social security system all on the one day. At the community level, some businesses like banks, post offices and supermarkets are forced to take on extra staff to cope. This especially happens in areas where lots of Age Pensioners or young families live. Currently, some people are paid on the day their payment is due, while others are paid in arrears. In an attempt to reduce confusion, we're now going to pay everyone fortnightly in arrears.

Even more confusing are different rules about when people have to tell us about changes to their circumstances such as earning some extra money or losing paid work. Some people have seven days to tell us, some have fourteen days and some have twenty-one days. From next year we'll apply uniform rules there too. Other measures we have introduced which are already making a difference are:

1. Newly arrived migrants now have to look after themselves for two years before they can get social security. (Interestingly, the New Zealand Government has just announced it will implement a similar policy). Despite criticism here, Australia remains one of the most generous nations, allowing migrants access to Medicare and family payments from the time they come.
2. We've eased restrictions on the amount of voluntary work older unemployed Australians can do. This way they can continue to lead an active life, while at the same time, giving something to the community.
3. Carers can now spend up to 20 hours a week to study, train or take on paid or voluntary work while remaining eligible for

Carer Payment. This will help them return to full-time jobs when they no longer have caring responsibilities.

4. These measures are a good start in moving away from the old system, which discouraged initiative and encouraged passive dependence. But there is room for further action.
5. We need to do more to help older people retain attachment to the labour force, and to assist young people into secure employment. We need to accommodate the special needs of women's workforce participation such as flexibility, caring responsibilities, and complex life-cycles.

In the long term we have to consider moving to a single payment structure. This would be a major step in the simplification process, and there are a number of attractive arguments in favour of it. However, as it would be such a fundamental change to a 50 year old system, there are a number of controversial issues which need full debate and public consultation before we would be happy to commit to that.

### **Improved service delivery**

In the area of Commonwealth service delivery, I believe setting up Centrelink was one of the boldest decisions ever taken by government. There was no culmination of events or crises that forced the change. It was the result of long term dissatisfaction with the existing social security and employment assistance arrangements, and I committed myself with enthusiasm to the task of establishing a new organisation with a new culture.

As a statutory authority, Centrelink essentially operates as a large publicity aimed business, with a CEO and a Board of Directors. The Centrelink Board reports to me and I am accountable to the Parliament. Centrelink provides payment and means testing services for social security, DEETYA, Health and Family Services, Department of Primary Industry and Energy, and Department of Veterans Affairs. It has formal agreements with its client departments with which it has a purchaser/provider relationship. Under its agreements it must meet targets and prove it's performing well. But the new structure allows more flexibility in the way services are delivered. When Centrelink was established, I insisted we improve the services to people living in rural and regional Australia.

Centrelink is focusing on new communication technologies to further improve the quality of their service delivery. Increasingly these technologies will help overcome distance and isolation problems. In future it's possible people will be able to do business without visiting an office. We're now looking at smart cards, lodging forms electronically, video conferencing and boosting the role of the Internet. We've provided field officers with laptops and modems so that people isolated by

geography, or frailty, can have a formal determination made at the kitchen table.

Like new organisations of this size, (24,000 staff at 400 locations, and expecting 20 million phone calls this year) Centrelink's had a few teething problems. Inevitably these, rather than successes, are publicised. We've put a lot of resources into improving the computer and telephone systems. The culture has already shown a great change, with a focus on treating people with dignity and courtesy. The first year's interim workplace agreement is being renegotiated at the moment, so far with minimal industrial repercussions.

Centrelink was also introduced to build stronger links between the social security system and employment service which is the policy responsibility of DEETYA. Centrelink has a contract to refer unemployed people to the Job Network. This year a nationwide network of more than 300 contracted private and community organisations replaced the CES. The Network operates from 1400 sites across Australia - more than four times the 296 CES offices.

The days of churning unemployed people through short term training programs are finished. Job Network members are paid when they get an unemployed person into a real job. The bottom line now is the strong financial incentives to get unemployed people into the workforce.

### **Integrity of the social security system**

As Minister for Social Security I have to make sure we maintain the integrity of the social security system. That comes down to fraud prevention and detection. The government has always made it clear it believes the vast majority of people on income support are genuinely in need of assistance. Unfortunately some people continue to abuse the system to the detriment of others. Not only does welfare fraud steal from the Australian taxpayer, it stigmatises those genuine recipients of social security payments.

This is not a new issue of concern. Reflecting on Labor's defeat in 1996, Gary Gray, National Secretary of the Labor Party, wrote in his election report that everyone in Australia believed they knew somebody who was rotting the social security system. And last year, the Clemenger "Silent Majority" survey found that "dole-bludging" was the second highest area of concern to Australians. We have to make sure the limited welfare dollar is targeted. I am determined that only those eligible, get paid.

From the beginning I was determined that my department should be adequately resourced to detect and control fraud and non-compliance with our legislation. As a result, in the 21 months from July 1996 to March this year, we've collected \$702 million in debts owing to Social Security. As well, over the same period, the amount of extra

spending we have saved the taxpayer through better compliance measures has averaged over \$46 million a week.

### **Mutual obligation**

Another part of the contract the government has with the Australian people is the principle of mutual obligation. There are two sides to this. The government on behalf of the community, has an obligation to help people who cannot provide for themselves. We do this by paying income support and providing other assistance. This includes employment services to help people get work.

In return, people who get income support from the government have an obligation to tell the truth about their situation and to do their very best to find work. In some cases though, people can get paid if they make a contribution to the community. For example, this could be caring for others such as children, the sick and the frail aged. Unemployed people can also be paid in return for substantial involvement in voluntary work.

For most of the unemployed, however, the emphasis is on an obligation to try and become self-supporting. We expect unemployed people to actively look for work, if they can. Some people may also be asked to improve their chances of getting a job by taking on further education, training or voluntary work. This focus on getting people back into paid work is important for many reasons. Most compelling is that paid work means people can take responsibility for themselves. After all, a social security cheque is a poor substitute for a pay cheque.

In seeking to ensure those who are unemployed meet their obligations, we've tightened the activity test. For example, unemployed people in their first three months on benefit must contact up to eight potential employers each fortnight and record their efforts in a job-seeker diary. This initiative was greeted with criticism, but has proved to be a valuable tool in focusing job search efforts more effectively. At greatest risk are the young, many of whom have limited skills and work histories. We're now asking the young unemployed – after six months on benefit – to take on extra responsibilities to improve their chances of getting paid work. Some of the things we ask 18-24 year olds to do are to improve their literacy skills, take on community work or take part in Work for the Dole or the Green Corps. One initiative we're also trialing is a mentoring pilot which involves volunteers from the community, and business sectors providing role models for young people.

These volunteers will give one-on-one practical advice and personal support. I hope this will help those young people who don't have the benefit of a supportive family in their job search efforts.

### **A more responsive and relevant social security system**

In looking to the future we will also face escalating costs in the areas of retirement, long term aged care and health. Fiscal and demographic developments are forcing us to reassess our current system. Between now and 2050 the ratio of people of workforce age to people of Age Pension age will decrease from six to one to three to one. People are also retiring earlier and living longer. In the future, it's conceivable people could spend up to 30 years in retirement. A girl born today can expect to live to 100. I believe the government has a responsibility to ensure our children and their children will not be burdened with an ever increasing load of taxpayer support for our ageing population. Our policy has to be very firmly directed at encouraging people to save as much as possible, as early as possible, for their retirement.

It's important that people maximise their own resources for retirement as much as they can. There are many older Australians today who, through thriftiness and hard work, managed to save enough for their own retirement. The government appreciates the very valuable contribution this makes to the economic welfare of this country and in acknowledgment of this we've broadened eligibility for the Commonwealth Seniors Health Card which gives access to concessional pharmaceuticals. To further encourage self provision in retirement, we have introduced a new simplified income and asset test treatment of income stream products. The treatment will depend on the characteristics of the payment, rather than on whether it is paid by a life office or a superannuation fund. This initiative will also encourage people to choose long-term streams which are drawn down in an orderly way over the life of the product, rather than lump sums.

To encourage increased savings by future retirees, superannuation preservation arrangements have also changed to include a phased approach to raising the preservation age from 55 to 60 by 2025. As well, all superannuation contributions made from 1 July next year must be preserved including member contributions which are currently accessible.

We have also been determined to improve the level of choice and competition in superannuation. A key initiative was the introduction of Retirement Savings Accounts. We have also introduced an initiative which I believe will particularly benefit women. The Pension Bonus Scheme will allow those men and women who choose to continue working beyond Age Pension age for a maximum period of five years to accrue a pension bonus of up to \$21,000 for a single person, or \$36,000 for a couple. Another reform allows people to claim tax rebates for contributions of up to \$3,000 a year to a spouse's superannuation fund, again giving incentive to people who have inadequate

retirement savings. This year the maximum rebate will be just over \$225, rising to \$450 in the 1999-2000 income year.

The government is also helping people to start planning for the future by providing a free service called the Financial Information Service. This service is particularly targeted to people in their forties – we want them to start planning and saving now. Based in Centrelink offices across Australia, this service gives expert and independent information to help guide people through the financial information maze. Importantly, you don't have to be on social security to take advantage of this service.

I believe we have made a good start in moving away from the old system, which discouraged initiative and encouraged dependence. But there is room for further reform. I am determined to help in the effort to get more unemployed people and young people into paid work, but we won't be throwing money into ineffective programs. The directions already set will be continued, for example, in encouraging people to plan and save for their retirement. I want to focus my attention in a second term on help for families, especially families with young children, and I believe that we need to do more to recognise the special needs of people with disabilities, and their carers. I am determined to step up our efforts to catch social welfare cheats.

I have found these two years fascinating and challenging, and I have found every day that ideas and enthusiasms flow through my office and my department in a stimulating and purposeful way. It is a great way to cap off 12 years of service in the Federal Parliament . . . but there is more to be done yet.

Before I conclude my remarks tonight, I just want to make a few brief comments about the rise of One Nation. I think that there is a greater than ever imperative for us to communicate our message. We need to explain to the community the benefits which flow from an open, efficient, high skills-based economy; a transparent financial sector; and a modern sustainable tax system. However, we need to do more than this. We must accept that government can, and must be, a force for good. We are responsible for ensuring that the benefits of the information high-skills economy are distributed throughout the community. We need to develop policies which maximise the opportunity for all to enjoy the many benefits which stem from the global economy.

It is the extent to which we successfully meet these challenges that enables us to build the foundation for our country's progress into the next millennium. The empty and vacuous promises of One Nation do no more than exploit the fears of those who are weary of change, and those for whom change is perceived to have delivered little.

The policies of One Nation offer no solution to the challenges which confront this country. However, their rise is a timely reminder to us all, to the extent that any electorate feels it is taken for granted, its response will both be swift and unmistakable.