

# the conservative

a journal of reform

Tony Abbott:  
the argument for  
central government

Santo Santoro:  
the case for federalism

Gerry Wheeler:  
federalism & VSU



The Federalism Issue:  
A Federation of States  
or a Nation Divided?

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# editorial

These days it seems that serious consideration of ideas which are mainstream, quintessentially Australian, and in the public interest is often sidelined by the pursuit of more superficial issues.

It has become apparent to those associated with this enterprise that there is a need for a journal - namely *the conservative* - to unashamedly raise issues which are increasingly prominent in the political, economic and social consciousness of our country's activists: and to do so through the prism of progressive Liberal thought.

In this inaugural issue of *the conservative* there is focus on the growing debate about federalism - an issue which touches the very core and foundations of our system of government.

Other articles touch on issues worthy of consideration - even if they do not appeal to the nation's editorialists and commentators.

The inaugural conservative deals with the nature of contemporary conservatism in Australia, and emphasises an issue that is at the heart of political debate in this country - albeit one that has caused a deal of confusion amongst those commentators fond of simplistic labels such as "States-righter" or "centralist".

They find it hard to come to grips with the position of the Howard Government - which tempers its firm 'federalist' instincts with a willingness to entertain the policy approach that best achieves the object in hand. As the Prime Minister noted earlier this year: "our Federation should be about better lives for people, not quiet lives for Governments..."

Many have spoken about the 'social laboratory' feature of federalism, where we benefit from a chance to examine the impact of reforms introduced or policies experimented with in various jurisdictions. For example, it is unlikely that any other State will be tempted to introduce a "vendor's charge" on property transactions similar to that short-lived tax levied for a period in NSW!

Similarly (following the Labor Party's about-face on the principle of compulsory student unionism) we can compare the model for reform applied in both Western Australia and Victoria. The experience in Victoria shows it is virtually impossible to devise a system that prevents 'service delivery charges' from being used to subsidise political activity and partisan campaigning.

In "On History and Liberty" the Foreign Minister examines those who have been in the vanguard of freedom - and reminds us that communism has been the most effective killing machine in human experience. He also talks about ways to prevent the United Nations from reprising a 'League of Nations' approach to global relations (idealistic, bureaucratic and incapable of enforcing its decisions).

Future editions of this journal will continue to raise issues of significance, including those placed by most commentators in the 'too hard basket.' *the conservative* will be an open forum for those who believe government and public policy are too important to be left to prevailing fashions.

Senator Santo Santoro



Tony Abbott argues that conservative principles, and the failure of State Governments, demand a rethink of the Federal-State divide.

### A CONSERVATIVE CASE FOR CENTRALISM

It's noteworthy that during last year's election campaign launch, the most sustained cheering greeted criticism of the States or the announcement of new Commonwealth programs to remedy the States' mistakes. Dealing with the States' persistent failure to fund needed services, the Prime Minister declared that he "was no longer prepared to do nothing" and would by-pass the States to fund directly local school communities and to establish 24 new Commonwealth-sponsored technical training colleges. Few commentators seemed to notice this sign that conservatives are falling out of love with the States. Perhaps they assumed that a highly partisan audience was simply having fun at the expense of the enemy. While many conservative people would like the States to take more responsibility for schools, hospitals and transport, almost no one seriously expects that they will.

At the conclusion of a famous denunciation of the French Revolution, Burke observed that:

*"if a great change is to be made in human affairs, the minds of men will be fitted to it; the general opinions and feelings will draw that way. Every fear, every hope will forward it; and then they who persist in opposing this mighty current in human affairs will appear rather to resist the decrees of Providence itself, than the mere designs of men. They will not be resolute and firm but perverse and obstinate."*

It is not inevitable that the States will decrease and the Commonwealth increase, despite all the evidence of the past 100 years. Even so, Burke provides a salutary reminder that not all change can be resisted and a warning against being sentimental about the states.

The current Federal Platform of the Liberal Party declares:

*"We believe...in a federal system of government and the decentralisation of power with local decisions being made at the local level".*

This is an important commitment because, without a vigorous federal system, Premiers such as Greiner, Kennett, Court and Bjelke-Petersen would have been unable to pioneer policies that became best practice around the country.

More recently however, rather than acting as laboratories for policy innovation or competing among themselves to deliver the best possible services, the States

have tended to act as de facto members of the Federal Opposition. In 2003, for instance, 18% of the NSW Health Minister's and 15% of the Victorian Health Minister's press releases were attacks on the Commonwealth Government.

Paradoxically enough, under these circumstances, the best way to ensure that "local decisions are made at the local level" and to preserve support for the federal system might be to expand the Commonwealth's role in it. Of course it would be best if the State Governments faced up to their responsibilities. But if they don't, is it enough for the national government to say there's nothing more that can be done?

"Power divided is power controlled" is an important conservative principle. It would be quite wrong for a successful democracy such as Australia to tamper with its fundamental constitutional order. It would be equally wrong for the Commonwealth Government not to use the mechanisms provided for in the constitution such as agreements with the States and conditional grants under section 96 of the Constitution to secure the best possible outcomes for the Australian people.

Traditionally, State governments have been seen as a way of ensuring that a big country's distant regions are not neglected. Even so, in Cairns and Karratha, State capitals can seem as remote and even more out of touch than Canberra. In much of New South Wales, "NSW" is said to mean Newcastle, Sydney and Wollongong. Paradoxically, Canberra's very remoteness, especially when communications and travel were more difficult, meant that the Commonwealth tended to fund the provision of local services rather than try to produce them, as the States did, from head office.

Conservatives are slow to conclude that significant problems or difficulties are "the system's fault." Confronted with a problem, the first instinctive of a political conservative is to try to make the existing system work better. A serious conservative is always concerned not to take unnecessary risks or to indulge in cures that turn out to be worse than the disease. A serious conservative distinguishes between what's attainable and what's not. But conservatism is about accepting responsibility not avoiding it. Conservatism is about facing facts not making excuses. Conservatism is sceptical about the state rather than enamoured of states. A conservative is not someone who mistrusts all government except State governments. Conservatives believe in small government rather than many governments, especially when those governments seem hooked on state socialism.

In Australian practice, devolved service delivery may be a better

guarantee that people will have their due than seven different sets of politicians and officials. In Australian practice, regular elections rather than lots of different governments may be the better check on power-hungry politicians. Conservatives could well argue, for instance, that the cost of obtaining State agreement to change the way the public hospitals run outweighs any conceivable benefit to patients. Or they could argue that the problem is how they are run, not who runs them, and that, in practice, no one could do a better job than the States. What could not plausibly be argued is the existence of some fundamental imperative that only State governments may ever run public hospitals. The principle that the Commonwealth may enter fields currently dominated by the States was first accepted by the Howard Government back in 1996 when it took the Kennett Government's reference of power to create a unitary system of workplace relations in Victoria.

In a parliamentary attack on the Keating Government's centralism, I once declared that Australia had:

*"a perfectly good system of government provided each tier minds its own business".*

As a new backbencher, I had not anticipated how hard this was, given that voters don't care who solves their problems, they just want them solved. When it is so difficult to maintain neat distinctions between who does what in practice, how realistic is it to maintain them in theory? And once the Commonwealth Government is engaged in any particular area of responsibility, how can it avoid the demand to provide leadership?

in Cairns and Karratha, State capitals can seem as remote and even more out of touch than Canberra

#### Bio

Hon. Tony Abbott MP was first elected to the House of Representatives for Warringah in March 1994. In the Howard Government, he has served as Parliamentary Secretary to the Minister for Employment, Education, Training and Youth Affairs 1996-98, Minister for Employment Services from 1998-2001, Minister for Employment and Workplace Relations from 2001-3, and has been Minister for Health and Ageing since October 2003. Prior to entering Parliament, Mr Abbott was a journalist, a political adviser, and the Executive Director of Australians for Constitutional Monarchy.



Santo Santoro writes that liberty and opportunity are still best protected by a careful balance of power between Federal and State Governments, but concludes that the time has come to improve our international competitiveness through a common national industrial relations system.

## IN DEFENCE OF FEDERALISM

### Introduction

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Federalism is again in the news. For the first time since the Franklin Dam controversy in 1983, the community is alive with passionate debate about the appropriateness of federal intervention into areas of traditional state concern. Now the sphere of state influence under challenge is not the environment, but industrial relations.

During much of the last two decades, debate about the appropriate mix of central and state powers has been a pretty dry affair. Few seem to have taken an interest in the fairly significant changes that have been made in this area. For example, few Australians (other than academics, journalists, politicians and the business community) would be aware that for nearly fifteen years the Commonwealth - rather than the States - has administered company and securities laws. They would probably be surprised to learn that the States have similarly ceded responsibility for the administration of friendly societies, credit unions and building societies to Canberra.

I suspect that the arcane debates over which level of government should do this or that really hold little interest for most people most of the time.

To take it further, no more than a handful of Australians would understand - or care about - the issues of vertical fiscal imbalance, or tied Commonwealth grants to the States.

However, now that the Commonwealth Government is proposing long overdue workplace reforms - with or without the cooperation of the Labor States - there is acute public interest in the federal/state balance.

In making my contribution to this debate, let me pin my colours to the mast from the outset.

I am a proud representative of the people of Queensland in the Senate. Prior to that I was a proud representative of the electors of Clayfield in the Queensland Parliament from 1989 until 2001. I served as a Cabinet Minister in the Borbidge/Sheldon Government from 1996 to 1998, and was the Minister responsible for - amongst other things - the Queensland industrial relations system.

I am a federalist to the core: I believe implicitly and passionately in federalism and in the key role our States play in the life of our nation to ensure the well-being of our citizens. I do not support - in any shape, manner or form - centralisation of powers in Canberra, just as I do not support eroding the democratic principles that underpin our State Parliaments.

### The real debate

But let me put this debate into proper perspective. Our federal system is written into almost every section of the Commonwealth Constitution. The States will not be abolished, nor their role significantly changed, without a total rewrite of the Constitution. That would require a very brave Federal Government and a vote of confidence by more than half of the electors in a majority of States at the end of (no doubt) an extraordinarily divisive referendum campaign.

Is that going to happen? Not in my lifetime. So let's be realistic. Our federal system is here to stay. Unlike the States, which regularly exercise their power to dismiss elected local councils, Canberra has no constitutional authority to sack State Governments that have become corrupt or dysfunctional.

The current federalism debate is not about whether the States should be abolished, but rather how we can structure our federal system to work better for the beneficiaries of that system – the people of Australia.

The debate we have to have is not about a division of power, but how that division operates so that all Australians get the maximum benefit from our federal structure.

### How the Federal Government has given a lifeline to federalism

Let me also place another issue on the table. John Howard and the Federal Government have been accused of being creeping centralists. Again and again the refrain has gone up that hiding just below the surface is an unhealthy desire by the Commonwealth to nobble the States and take their powers. People have even drawn analogies between the centralist power grab of Gough Whitlam and the approach of John Howard and his team.

Sometimes the rhetoric from Canberra has not been all that helpful in dispelling these concerns, and to be honest there are members of both the Liberal and National Parties who have raised concerns about the *perception* that the Commonwealth is taking too centralist a line with the States.

But to those conservatives I say this. No Federal Government since the Second World War has done more to bolster and strengthen our federal system than the current one. In 2000 John Howard and his team implemented a bold decision that has, and will continue to have, more practical impact on sustaining our federal structure than any decision by previous Governments (rhetoric notwithstanding).

In 2000 John Howard gave to the States every single cent of the GST. (This is the GST, by the way, that each State Labor Government campaigned against.) In 2000 the Federal Government anticipated that the GST would give to the States a little under \$4,000 million above and beyond their revenue sharing arrangements with Canberra. In fact by 2005, the real benefit turns out to be closer to \$10,000m, and if the economy continues to expand it will be \$16,000m by 2010.

in 2000 the Federal Government answered the plea of generations of State Premiers, and gave the States financial security for the first time since they lost their income tax powers during the Second World War

In the past we had to endure the unedifying annual fight between the Prime Minister and Treasurer and their State counterparts over revenue-sharing.

Those who sought to break this cycle called for a new approach, for example in 1995 Queensland Labor Premier Wayne Goss said:

*'First, and foremost, the Australian*

*federation for the 21<sup>st</sup> century must be one in which expenditure responsibilities for the States and Territories are commensurate with their revenue raising capacity.'*

I have to say I agree with this proposition, and so did John Howard. In 2000 the Federal Government answered the plea of generations of State Premiers, and gave the States financial security for the first time since they lost their income tax powers during the Second World War.

The Prime Minister has said this decision was a massive vote of confidence in the States. I agree with him.

For the first time since 1942 the States have a growth tax linked to the national economy. They don't have to punish people writing cheques, or create fictional taxes on the writing of documents. They don't have to slug, as Bob Carr did, people sleeping in a bed in a hotel. The States, in other words, have been given their freedom.

With freedom, of course, comes responsibility.

### The new debate

The current debate about federalism has a completely different character from that which occurred during Gough Whitlam's time.

Whitlam followed the tradition of the British socialists of the late Nineteenth Century who called for central government and warned

about the pitfalls of federal institutions. I suspect that he would have read or been influenced by Harold Laski, the great British socialist of the London School of Economics, who wrote a seminal tract in 1939 called *‘The Obsolescence of Federalism’*. If Gough hadn’t read Laski, he certainly would have read Gordon Greenwood’s 1946 book *The Future of Australian Federalism*. Gordon Greenwood, who continued to lecture at the University of Queensland until the early 1980s, basically consigned the Australian federal system to the scrap heap, and called for a single unitary system.

The federalism debate in the 1970s was all about aggregating and dispensing central power. Underlying that debate was the assumption that the States were out of date, wasteful and basically reactionary and useless. All of the great constitutional challenges were about the institutions of government: would the States win on this point or the Commonwealth on that?

That debate is now passé, even though many seem keen to rehash those arguments. This is the point people are missing about John Howard and the current Federal Government. This is not a centralist government. John Howard said in April this year that he was not one to genuflect uncritically at the altar of State’s rights. Importantly he went on to say, and I quote: *‘Our Federation should be about better lives for people, not quiet lives for Governments.’*

If there is an accusation that can be fairly levelled at the current Commonwealth Government, it is that it has sought a new paradigm. Policy reforms are not developed within the framework of centralism or States’ rights, but within the prism of citizens’ rights. In other words, if this Government is at fault, it is because it has placed the interests of the citizens of Australia at the epicentre of its policy framework, rather than the interests of the federal bureaucracy or the maintenance of the status quo with the States. No wonder then, that it is so hard to evaluate some of the decisions that have been made against the traditional central/States’ rights frameworks that we are used to.

However, I would like to add a caveat: while I think that the Commonwealth Government has got it right, we still need to consider the cumulative impact of its initiatives upon the federal framework. No decision is ever made in isolation: good public policy requires evaluation of a host of different issues and possible impacts.

### Reasons for supporting federalism

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Why should we care so much about the federal system? I will outline briefly the reasons why maintaining the federal balance is not only good politics but even better public policy.

The fundamental philosophical tenet that binds together both conservatives and liberals is their belief that the prime purpose of government is to protect and enhance the liberties of the individual. Government power is not an end in itself, but rather a means of empowering the men and women who collectively own the machinery of the state.

Those who advocate centralism argue that it is a more “efficient” system of government. Let us put to one side that the history of the modern nation-state has demonstrated that centralising power inevitably leads to inefficiency and assume that there is some merit in this argument. This in itself would not end the issue, because the efficiency and effectiveness of state power must be tempered by the need to maximise individual and group liberty.

All true liberals recognise that democracy, whilst possibly inefficient on one narrow criterion, is central to the maintenance of social cohesion and stability – the very factors that underpin a stable society and economy.

Looked at in this way, not only is democracy highly efficient - it is also central to the maintenance of individual liberty. So true liberals and conservatives in this country recognise that social cohesion, individual liberty and economic growth are all promoted and protected by the diffusion of political and governmental power.

Federalism, with its layers of government, should be seen as a powerful force in enhancing popular participation in government, in empowering the citizens of Australia and in promoting sound decision-making.

That form of government which is best, is that which is most responsive to its citizen’s aspirations.

This is not another way of saying that a central government is the worst form of government and a local authority is the best. It is simply the

fact that in a federal system each layer of government has a role to play, and each gives its citizens a voice and a means of channelling their legitimate expectations. In short a federal system of government is much more likely than a central form of government to achieve policy outcomes that bear a sensible resemblance to the preferences of the electorate, and thereby minimise the potent risk of community apathy and outright alienation.

true liberals and conservatives in this country recognise that social cohesion, individual liberty and economic growth are all promoted and protected by the diffusion of political and governmental power

Furthermore, the record of the past 50 years shows that federal democracies have been the most vibrant forms of government, and have been powerful tools in enhancing economic performance. As each layer of government competes with the other in the form of lower taxes, incentives for business, and innovative regimes to promote economic growth, the cumulative effect is a system of government which provides an energetic framework for sustained economic growth.

Federalism diffuses power and thus acts as a check and balance on all levels of government. In the absence of a bill of rights - which would allow an unelected judiciary to become the arbiter of social and economic debate, itself an inherently unsatisfactory, and possibly dangerous development – the only real check on the unbridled power of the central government is the Senate and the States.

The flexibility offered by a federal system enhances sensible and practical reforms. It should not be forgotten that it was the Queensland Parliament which abolished death duties in 1976, triggering a domino effect of taxation reform throughout the Commonwealth. Nor, on a social front, that it was the Victorian Parliament which brought in the first laws in the western world for the compulsory wearing of seat belts. This policy was soon duplicated not only in every other Australian State, but then in North America and Europe.

Going back more than 100 years, the then Australian colonies introduced a range of electoral and voting reforms which spread throughout the world. (Even to this day in the United States the secret ballot is known as the ‘Australian ballot’ as it was a reform initiative of the South Australian Parliament.)

Some use the term “social laboratory” as a short form of saying that a federal system maximises the chances of good and enduring reforms being introduced, because State Parliaments are closer to the people and much more likely to respond promptly to new and innovative popular proposals.

Finally, and possibly most importantly, I support federalism, because from my experience State Parliaments, parliamentarians and public servants are very close to the people they serve in every sense of that term. They are responsive to their needs because they understand them. They live in the same communities they serve, they go through the same climatic, economic and cultural experiences as their fellow citizens. A State or Territory Parliament and a State or Territory bureaucracy is better suited to most forms of service delivery than a bureaucracy located on the other side of the continent or thousands of kilometres away.

It is often hard for people in Sydney, Canberra or Melbourne to understand why rural Australians, and those living in Brisbane, Hobart, Darwin, Adelaide and Perth are less likely to support more centralisation of power in the federal government. To put this down to distrust of Canberra, “Canberra-bashing”, or redneck politics, is to totally miss the point. The main reason for this distrust is that the Canberra/Melbourne/Sydney axis is often totally out of touch with the issues affecting outlying Australia. There are acute differences between and within the States. There are areas of glaring deprivation and desperate

need. Australia is not painted in the same colour as the leafy avenues of Canberra, and not all Australians hear the hustle and bustle of Martin Place or the hum of trams gliding down Collins Street.

few issues go “under the radar” at a local level - what may be “small potatoes” in Canberra may be front page news in Hobart

Does this mean that State governments always get it right and properly serve their citizens? Anyone observing the disgraceful state of Queensland’s public hospital system exposed by the Morris Commission of Inquiry would know that this is not the case. State governments are just as prone as the Federal Government to get things wrong,

but the example of comparative administrations highlights bad policy decisions and makes it easier for them to be reversed. For example, NSW found it impossible to maintain its “go-it-alone” property vendor tax; and those recalcitrant states refusing to phase out all the taxes and charges intended for replacement by the GST will face increasing pressure.

Few issues go “under the radar” at a local level - what may be “small potatoes” in Canberra may be front page news in Hobart. So, I would contend, not only does federalism promote public participation in decision making, it also enhances accountability.

### Fundamental issues for the future of a federal Australia

Having nailed my federalist colours to the mast, I now deal with some of the practical realities facing Australia, the implications these pose for federalism and how conservatives should respond to these challenges.

Fundamentally there are three social phenomena impacting on Australia – and all economically developed nations.

The first is globalisation - of everything from trade to telephone conversations. We now have to think, trade and act globally. Australia has always had to look beyond its borders, as an export-driven nation without the huge domestic population of nations such as the United States.

The second is the growth in international trade regimes. The Commonwealth increasingly has to operate in an environment framed by the trade-related treaties and compacts we have negotiated or committed to. (I distinguish these from the social engineering treaties that the UN bureaucracies seek to foist on unsuspecting member governments!)

The third is the growth in social movements that operate internationally and think globally – the environmental ‘multinationals’ such as Greenpeace are prime examples. These movements operate across national boundaries and cross normal ideological divides. Importantly, the rise of “new politics” has resulted in pressure being placed on the central government to become involved in a range of issues that normally were the preserve of the States or which fell outside political

discourse altogether. Malcolm Fraser, ironically, started Australia on this path when he announced the ban on whale hunting in the 1970s, and used the trade and commerce power to prevent mining on Fraser Island in 1976.

How has the federal government responded to these challenges?

First and foremost, the federal government has itself re-invented conservative thought about how to develop public policy. While accepting the reality of federalism, and re-affirming his support for it, John Howard has stated unequivocally that the motor force driving the Coalition is the desire to free the individual, not trample the States.

Let me quote from the Prime Minister's April address to the Menzies Research Centre:

*'fears of a new centralism rest on a complete misunderstanding of the Government's thinking and reform direction. Where we seek a change in the Federal-State balance, our goal is to advance individual choice, freedom and opportunity, not to expand the reach of the central government.'*

Conservatives would see the sense and logic in what the Prime Minister is saying.

Anyone looking at the various changes brought about since 1996 would be hard-pressed to see this as a continuation of the normal pattern in Commonwealth/State power relations.

During that time the States have ceded a range of regulatory powers to the Commonwealth: the establishment of the Australian Prudential Regulatory Authority in 1998 is one example of this, and the creation in the late 1990s of a national market for electricity is another.

Yet in other areas the Commonwealth has sought to vest more authority in the States to run their affairs. The development and implementation of the Regional Forest Agreements, and generally the acceptance by the Commonwealth that resource management is a State responsibility, are examples of this contrary trend.

As I highlighted previously, the GST itself is the greatest step ever taken by a Federal Government to empower the federation and give economic lifeblood and true hope to the States.

So what is the rationale behind these developments?

The one thing that binds together all these disparate, and unconnected, policy initiatives, is the unquestioned desire by the Federal Government to get a result that will benefit the nation and its citizens. The Federal Government has not been driven by any ideology of power, but an ideology of individual empowerment.

Where the States are seen as the best means of delivering sound and enduring policy, the Federal Government has engaged with them, ceded powers and given them a proper funding base.

Where the States have impeded changes that empower individuals and strengthen the national economy, the Commonwealth has used its powers to by-pass them.

Now, I would strongly contend that whenever possible, cooperation with the States is preferable to conflict with them. As a federalist, I would counsel my colleagues to think long and hard before engaging in any action that would intrude into areas of traditional State responsibility. I would do so because not only is this sound politics, it is also sound policy. The various reasons I have outlined for supporting federalism create in my mind, a powerful burden of proof that must be discharged before any action is taken to compromise it. Reviewing the coordination between local and national approaches must not shift the underlying balance of Australian federalism

Clearly the Prime Minister supports this, as he and John Anderson have worked diligently with the States to develop the National Water Initiative and National Water Commission. Likewise the Prime Minister continues to work with the States and Territories in developing service delivery strategies for our indigenous communities.

In April the Prime Minister said he was not persuaded that the effectiveness or efficiency of our health care system would be improved by a Federal takeover of public hospitals. I agree without reservation.

The Prime says he favours an incremental approach. I understand this to mean that he supports, as I do, our federal constitution, and believes that any changes in the balance of power must be looked at individually and with caution.

I do not support any centralising proposals that would impact on service delivery by the States in the areas of health, education, law and order or public infrastructure.

Some people have suggested that the way forward is to focus purely on optimising service delivery, and to ascertain which level of government should have the sole responsibility for delivering a particular service to the public. Some people on the conservative side of politics have drawn up lists of services which should be allocated solely to either the Federal Government or the States. Debate has centred around education, health, disability services and universities.

To those persons I say two things. First, the Constitution and more than 100 years of experience highlight that in all of these areas there are concurrent powers and intermingled responsibilities. Each level of government has certain responsibilities, and it would be neither sensible

reviewing the coordination between local and national approaches must not shift the underlying balance of Australian federalism

nor practical to float proposals that assume that one or the other level would or should vacate the field.

Second, it is sound policy to have concurrent responsibilities. This pluralism not only maximises democratic input into policy processes, but also ensures that a variety of opinions and experiences are injected into policy debates. It may sound “tidy” and “logical” for just one level of government to determine health or education policy and have responsibility for health or education service delivery, but it is not good in terms of either public policy formation or service delivery execution.

There is no real evidence that Australians want to retreat from the principle of delivering government services through the States: the ‘regional government’ argument some advance as an alternative would anyway risk creating ‘super councils’ in fief to the Commonwealth that would be just as likely to be bad administrators as the States themselves.

There is a soundly-based and widespread cynicism about the capacity of a single central government to efficiently or fairly govern a continent-wide country with uniquely dispersed populations.

My own view is that in most fields, the States should have responsibility for service delivery, and the Commonwealth a central role in the development of national benchmarks to guide and assess the States.

However, the Commonwealth provides a global perspective the States lack. The Commonwealth has the advantage of assessing public policy from a national and international perspective. It is able to inject into the policy debate an objectivity often lacking at a State level when the needs of one State clash with those of another. The protection of the Murray River basin is one glaring example. Without the Commonwealth’s intervention there would have been an ongoing and self-serving debate between Queensland, New South Wales, Victoria and South Australia. The needs of St George irrigators rank more importantly in Brisbane than those of fishermen at Murray Bridge. Yet the need to care for our nation’s greatest river system is of central concern to all Australians, and the Commonwealth’s intervention in this debate was of critical importance.

National benchmarking is particularly important at the moment, with a range of Labor State Governments mismanaging public administration. Queensland is a prime example of this. Under Peter Beattie and his Labor team, Queensland’s public hospital system, ambulance service, fire fighting service, state education system, electricity generation and transmission system and even the ports have stagnated.

I have already mentioned the Morris Inquiry into Queensland’s underperforming public hospital system, but the Productivity Commission just recently highlighted how Labor has even allowed the firefighting service to deteriorate from a position five years ago where it

was regarded as the nation’s best.

State Governments must be held accountable for how they spend the GST monies given to them. In recent times they have squandered the windfalls from the GST and the property and resources booms, and have mismanaged critical public services, especially those crucial to our national economy such as railways and ports.

Australians everywhere are complaining – particularly to Federal politicians – that service delivery levels in hospitals, schools, policing and transport are declining; even though the states have more money than ever before.

Everywhere I go, ordinary Australians plead for the Federal Government to step in and fix problems the states have failed to confront.

However, the answer is not to let the states off the hook by flying kites and saying the Commonwealth should take over their responsibilities. That only creates a diversion and a silly debate about “States’ rights” allowing the Labor Party to create a smokescreen about a Canberra takeover. Time and time again Labor has played a card that was honed to perfection by Henry Bolte, Robert Askin and Joh Bjelke-Petersen. Only this time, the Government losing the political fight with the States is a conservative one in Canberra.

So, one of the issues that my colleagues should learn, and learn quickly, is that you are on a hiding to nothing when you offer Labor States the opportunity to evade their responsibilities by threatening to move in and clean out the mess for them. Surely we have learnt enough by now to understand that the punters don’t want that. They want political responsibility, not political buck-passing. What we have to do is to shine a torch on Labor’s mismanagement, not give it a political lifeline.

The Commonwealth has a role in benchmarking the States and bringing to the taxpayers an ongoing report card on their lack of performance.

The electorate will then be in a position to sort the problem out.

So I draw a distinction between taking over the delivery and administration of public services, and developing national frameworks and benchmarks for service delivery.

I see both as important, and believe that shared responsibility by both levels of government is not only inevitable from a constitutional perspective, but also desirable on effectiveness and efficiency grounds.

### Industrial relations reform

This brings me to the issue of industrial relations reform.

As a traditional federalist I have previously never envisaged, nor

what we have to do is to shine a torch on Labor’s mismanagement, not give it a political lifeline

supported, an approach that would see the Commonwealth taking responsibility for workplace relations.

Recently, however, I have reconsidered my position.

Let me again go back to the issue of globalisation, especially that relating to trade. More and more we are encouraging free trade at an international level. We are internationally competitive in many areas. We have unilaterally reduced our tariffs and have encouraged our primary and mining industries to compete on the world market - one which is often distorted by inappropriate levels of government intervention such as that found in the Common Agricultural Policy of the European Union.

Despite this, much, much more needs to be done. When Australian institutions produce outcomes that make us internationally uncompetitive, then some hard soul-searching is needed. No more graphic illustration is provided than by our industrial relations system.

Currently we have overlapping wage-fixing by State and Federal institutions, creating a patchwork of regulations. One workplace is often confronted by multiple awards of both Federal and State origin.

Earlier this year there were 2,300 Federal awards and 1,700 State awards. Pity the small business proprietor who seeks to expand his business!

A Commonwealth takeover is not the only solution to this mess, but it is the only one on the table designed to reduce the regulatory burden on business and make our economy more competitive.

Again the focus of the Federal Government is not centralising power in Canberra but maximising power at the shop floor. It is all about relaxing the constraints that prevent employers and employees from getting together to carve out a competitive future in an increasingly competitive world.

Could this be done in an environment of federal and state cooperation and without the threat of a central takeover? Most probably it could, but only if there were some conservative State governments to ensure that we didn't have this silly debate led by States acting as the stalking horse of the Federal Labor Opposition.

However, time waits for no one. The issue of workplace reform is a key one if we are to remain internationally competitive.

Does it entail political risks? Of course it does, but all essential reform is initially confronting. It is only with hindsight that key reforms are seen as sage and well timed.

Does this debate cause me, as a federalist, some residual concern? Yes, it does, but I am convinced that unless we embrace workplace reform now, we will do our citizens an enormous disservice.

Australia is on the cusp of an exciting and prosperous future. The foundations of this success reflect the economic, taxation and structural reforms implemented by John Howard and the federal Coalition.

Federal/State cooperation is a key to ongoing success. Centralism for the sake of accruing power in federal bureaucracies is, and always has been, a recipe for economic stagnation and political ruin. However, these are not the motives of the current reforms pushed by the Commonwealth.

We now have an historic opportunity to extend our economic growth and keep our citizens in the forefront of the developed world.

And let all federalists remember one thing: with the States receiving all of the GST revenue (linked to a growing economy), then the more the Federal Government keeps the economy expanding, the more money the States will have to provide essential services to the public. From this perspective, a federal takeover of outdated State industrial relations laws may well prove a godsend and ensure that we have a viable federal system for the century ahead.

### Australians are Federalists, but not Ideologues

Australians do seem to value our federal compact, and the constitution that enshrines it. Let's not forget that the people voted to adopt the constitution, after it had been drafted by an elected convention. As historian John Walden reminds us,

*"in world historic terms the process of making the Australian constitution was probably an unequalled exercise in democratic participation".*

Because referendums to amend our constitution have been successful only a handful of times since 1901, it is claimed that Australians will blindly and instinctively reject any constitutional change. Yet they have shown a capacity to be highly selective in choosing which changes to support - e.g. in 1977 they passed three of the four proposals presented, and in 1967 gave 91% support to one of the amendments (permitting the Commonwealth to make special provision for Aboriginal Australians) compared to only 40% support for the other question (making it easier to increase the size of the House of Representatives).

As former Governor-General Sir Ninian Stephen noted;

"because a constitution is the fundamental law providing the framework for national institutions, it must be an enduring thing - not lightly to be changed in response to the passing policy of a present parliamentary majority".

Thus even at the height of the 'Cold War', the people rejected a constitutional amendment giving the Commonwealth special power to ban the Communist Party.

Generally there has been a high “onus of proof” demanded when it is sought to expand Commonwealth powers at the expense of the States, and nearly all of the unsuccessful referendums have been of this nature. (Indeed, sometimes it has taken politicians a long time to “get the message” – e.g. the so-called “simultaneous elections” question has been rejected four times since 1974, while proposals to give the Commonwealth explicit power over “monopolies”, and over all trade and commerce, have each failed three times!)

So in common with most Australians, I feel that a federal system is the most sensible way to govern a country as diverse and as large as ours. Yet our federal instincts are not rigid and dogmatic, and we have embraced changes to the distribution of powers that would astonish our founding fathers.

Australians don’t want slogans, they want solutions – they are looking for

a Federation that works, delivering the services and outcomes we all seek.

In responding to this desire, the Howard Government maintains a long Liberal tradition. It was Sir Robert Menzies who declared:

*“We should not be constrained by any predetermined abstract theory; for we know that practically every political problem is a human one...”*

#### Bio

Senator Santo Santoro has represented Queensland in the Senate since October 2002. Prior to that, he served in the Queensland Legislative Assembly from 1989 to 2001, including as Minister for Training and Industrial Relations between 1996 and 1998.

## 13 Focus On Federalism



Gerry Wheeler reviews previous attempts at VSU, and outlines the inevitable folly of a hybrid approach.

## VOLUNTARY STUDENT UNIONISM - LESSONS FROM THE STATES

Heard the one about the student union president who couldn’t balance his budget, let alone afford to deliver on his election promises? Rather than constrain his activities this particular student politician decided to increase the subscription fees and arranged that the general meeting of students to consider the proposal would be held at an extremely out of the way location on the edge of the campus.

The worst part of the story is that representatives of a very large number of sporting clubs were induced to turn up and support the proposal through the offer of a bigger slice of the action should the fee increase be approved.

The student politician in question was none other than Kim Beazley who became Guild President during his time at the University of Western Australia. Defending his action, Mr Beazley told his biographer, Peter Fitzsimons:

*‘I had to manoeuvre to get the people in sports councils to come in and back that to make sure they got enough money out of it so they would be prepared to go and vote for us. I thought it quite justifiable.’<sup>1</sup>*

There are many such stories of abuse of student union membership fees that have been told over the years. Some seem amusing. Others are plain offensive. But they are all rooted in the practice of compulsory student unionism that afflicts university students across the country.

In 1999 a Senate Committee heard how compulsory student union fees have been spent on a range of obscure activities including funding for the PLO, an animal rights campaign, a sexuality festival, the paying of students to attend political demonstrations and even a so called “dope day” with a student union allegedly supplying the marijuana.

More recently, it was revealed that the pro-ALP National Union of Students had devoted \$250,000 against the Coalition in the 2004 Federal Election campaign.

There is little wonder, therefore, why it has been the political nature of such expenditure that has been a constant focus of opposition to compulsory student unionism.

For reasons of principle as much as practice the introduction of voluntary student unionism remains one of the last pieces of unfinished business in the Liberal Party’s efforts to implement free association across the Australian community.

Although a policy to support VSU was unanimously endorsed by the Liberal Party’s recent Federal Council it has not always been so easy for the advocates of voluntary membership. Over a 30 year period the campaign for VSU has engaged Liberal activists, fashioning both heroes and villains within the Liberal fold – respectively those students who risked expulsion from university in defence of high principle and those State Liberal and National Party premiers whose preference was to buy themselves a quiet life with university vice chancellors and student radicals.

There have been proud legal challenges to compulsory student unionism as there have been various legislative attempts to bring about legislative reform over the years and it is not without irony that even the Federal Coalition’s newly achieved Senate majority has not guaranteed the passage of VSU as the numbers might tantalisingly suggest.

### VSU and Australian Federalism

The issue of whether student unionism should be a matter for individual State Governments to resolve was settled years ago within the Liberal Party.

Universities are creatures of State legislation and it has been open to the States to amend their own laws to do away with the regime of compulsory student unionism. Other than the former Government of Richard Court this has simply not occurred.

After constant unsuccessful attempts to enlist conservative State Governments to implement voluntary membership, energies were

devoted to encourage the Federal Liberal Party toward a policy of using the Commonwealth’s financial powers under section 96 of the Constitution - to make it a condition of funding that the States implement VSU.

Such a policy was first adopted by the Federal Parliamentary Party under the leadership of John Howard in December 1988 and has formed the basis for higher education policy at successive Federal elections since that date.

### The Government’s Latest VSU Bill: Lessons from the States

What is most curious in the current debate about the Government’s latest efforts to outlaw compulsory student unionism is not that some profound new arguments have been raised which may cast doubt on the need to legislate away compulsory unionism - but that the newest recruits to compulsion have been influenced by the same self-interested points of view trotted out by successive generations of student politicians.

This time, however, those arguing the case for freedom have more than principle, logic and plain common sense on their side. This time they have the relatively recent history of two State Liberal Governments: one which successfully implemented voluntary membership and payment of fees; and the other which actually made the system worse through its efforts to dictate the spectrum of activities for which compulsory union fees could be levied.

### The Western Australian Experience

The WA Liberal Government of Richard Court passed legislation in December 1994 that fully implemented voluntary student unionism.<sup>2</sup> The legislation declared that it was not to be compulsory for a student to be a member of student association or pay a fee either directly or indirectly to an association. This model prevented tertiary institutions from levying compulsory fees for the provision of any amenity, facility or service not directly related to the provision of an educational course.

One reason why the Government did not seek to make any distinction between so called political and service functions of student organisations was the well-founded belief that such distinctions would be utterly ineffective - in practice, little more than the basis for compulsory subscription loopholes.

To the chagrin of the supporters of compulsory unionism, VSU operated effectively under the chosen model. Student organisations were faced with the demand for genuine incentives to attract membership and to provide a sufficient quality of service to sustain student guilds into the future.

At the University of Western Australia and at Curtin University, for example, the Guilds offered particular services to members only, as well as substantial member discounts for a range of other services to encourage students to take out membership.

At UWA there were member discounts for food, computer and modem hire as well as the provision of discounts for a range of off-campus facilities such as music stores, fast food outlets, nightclubs and cinemas.

At Curtin University, member discounts were offered on a similarly broad range of services including at the campus optometrist, hairdresser, pharmacy, and sports store as well as off-campus businesses including gyms, food outlets, cinemas and even a tyre and brake service.

The fallacious argument that student services would not survive the discipline of voluntary membership is defied by this experience. The newly voluntary UWA Guild continued to operate services such as the refectory, cafes, bars, a copying centre, a second-hand bookshop, counselling services, employment register, student loans and textbook subsidies, as well as offering legal advice and career counselling.

Nor was the cultural life of the university diminished: the regular social activities that were part of the annual student calendar were maintained. The Guild continued to fund Orientation Day, the Scavenger Hunt, a national campus bands competition, inter-faculty sports, Oktoberfest and the Guild Ball. Student publications including the student newspaper continued to roll off the press and the Guild also funded more than 80 affiliated clubs and societies.

The representative role of the student guilds was similarly untouched by VSU. With voluntary membership, all student guilds in WA continued to send representatives to university Committees, Councils and Senates.

Perhaps the best indicator of the success of VSU in Western Australia was seen in the lower dollar cost of membership under the voluntary system. In 2002, the year the Gallop Labor Government legislated to reintroduce compulsory student unionism<sup>3</sup>, the Union fee at the University of Western Australia was just over half what it was when the Court Government first legislated for VSU in 1994.

### The Victorian Experience

In stark contrast to what occurred in Western Australia, the sorry experience of what was passed off as VSU in Victoria should be sufficient to awaken those who argue for a hybrid law: asking the Federal Government to find a way to outlaw the direction of compulsory funds to student political activity while preserving a funding stream for subjectively approved cultural and sporting activities.

To the uninformed, this argument may sound entirely reasonable, if not persuasive. However, history avers that this view is naïve in the extreme.

Far from guaranteeing voluntary student unionism, the Victorian legislation entrenched compulsory membership and actually encouraged radical student activities.

Unlike the Western Australian legislation, the Victorian model that was passed in June 1994<sup>4</sup> required universities to make membership of any student organisation optional and allowed the relevant Minister to specify a list of allowable student services for which a mandatory fee could legally be charged.

The original list contained what most would view as innocuous student union activities including food and beverages, sports and physical activities, child care, counselling, debating and a range of other activities and services.

After the introduction of the Victorian legislation, student unions in that State were swift to find ways to subvert the intention of the new law. By outlawing compulsory fees for some services but not others, the Kennett Government predictably afforded student radicals precisely the mechanism they needed to give effect to their desire to retain compulsory student unionism.

For example, in 1996, the Melbourne University Student Union distributed a document to its executive members as a guide to circumventing the legislation. The union merely reorganised many of its political functions so that they could be classified as service-oriented and therefore able to access the compulsory fee. It was concluded that virtually all the union's political activities could receive full funding merely by a process of reclassification.

the sorry experience of what was passed off as VSU in Victoria should be sufficient to awaken those who argue for a hybrid law

Although the Victorian legislation also sought to limit the use of profits from any services subsidised by the compulsory fee component to fund political activity on campus, this was also circumvented in practice. At Melbourne University, the student union allocated an excessive amount of the compulsory fee to its commercial ventures, particularly its food services division so that these operations returned a sizeable trading surplus. The surplus was then allocated to political activities which could not otherwise have been funded out of the compulsory fee.

The Victorian branch of the National Union of Students even obtained legal advice to the effect that the compulsory student union fee could fund membership of the National Union of Students. This was in spite of the NUS financial statements of the time declaring that “the principal activity of the Association was the provision of trade union services to its members at all levels within Australia”.

To put an end to the experiment the Victorian legislation's intent was reversed by the Bracks Government in 2000 through amendments allowing previously proscribed activities such as student newspapers and political activities to be funded by mandatory student fees<sup>5</sup>.

There are two clear messages from the Western Australian and Victorian experiences. First, voluntary unionism is a principle, not a preference – it cannot be watered down without losing its core value, and it cannot be moderated without providing an invitation to pervert its intention.

Second, it is clear that following successive reversals of voluntary membership laws at a State level, it is legitimate use of the Commonwealth's powers under s96 of the Constitution to ensure a consistent, fair and national application of voluntary student unionism laws.

### Regional Campuses

Considerable attention has recently focused on country universities. It seems to have been argued that compulsory payment of union fees should be outlawed for city students but retained for those in the bush.

Such a suggestion is appallingly patronising. After almost 30 years of advancing a human rights argument in support of VSU it would be both hypocritical and offensive to accept that university students in the country should be treated as some sort of second-class citizens who are less able to benefit from the principle of voluntary unionism or capably respond to its challenges.

As a matter of intellectual consistency it is clear that to deny voluntary student unionism to country students would be a fundamental abuse of their basic right to free association, and to be treated consistently under the law, if VSU is granted to those in metropolitan areas.

There are in fact even stronger market incentives to drive VSU in regional centres where there may be fewer off-campus competitors than in metropolitan areas. Indeed, the sharing of facilities beyond university boundaries and the encouragement of non-student patronage would be a positive way of encouraging universities to become a more active and integrated part of their local communities.

In addition to being examined by the current relevant Senate Committee, the issue of the impact of VSU upon regional campuses was considered by the Senate Employment, Workplace Relations, Small Business and Education Legislation Committee during its consideration of the Federal Government's 1999 Bill regarding voluntary unionism<sup>6</sup>.

In 1999, Government Senators found:

*"The Committee received submissions from all regional universities, and noted both the claim to regional disadvantage, and the lack of any substantiation of these claims. The Committee sees no particular disadvantage to regional and rural universities flowing from this legislation..."*

*"...User pays principles will ensure the continued viability of services whether they are sold to students or to members of the local community. Furthermore it is unlikely that regional universities will face the same level of competition as metropolitan unions will face if union catering services are contracted out under new arrangements..."*<sup>7</sup>

### The Way Ahead

The campaign for choice in student unionism goes on. After years of fighting the radical left on campus, bringing down the Australian Union of Students, mounting disaffiliation campaigns against the National Union of Students, presenting petitions from thousands of students to Liberal State Premiers and promoting the cause of free association in the councils of the Liberal Party the task is yet to be completed.

What remains is an appeal to the goodwill and good judgement of the majority of the members of the Australian Senate. In the final analysis voluntary student unionism is an issue of right and wrong – the right of students to free association and the wrongs being perpetrated against them by student union leaders and university vice-chancellors acting as their shop stewards.

Rarely in politics is an issue so black and white.

The final word therefore goes to the Prime Minister who has been consistent in his promotion of VSU as has his Treasurer and so many members of his Government. In an address to the 2003 Federal Council of the Australian Liberal Students Federation the Prime Minister said:

*"The Government has prepared... legislation to bring voluntary student unionism to the campuses of Australia. The legislation will stipulate that membership of student associations is to be voluntary, and we'll make it a condition of funding to higher education institutions that student unionism or the payment of money not related to a student's course is not a condition of enrolment. This is a fundamental straightforward principle of freedom of association. I have never seen it otherwise. The Government I lead has never seen it otherwise, and we will continue to argue before the Parliament that this legislation be adopted."*<sup>8</sup>

- 1 Fitzsimons, Peter, "Beazley: A biography", Harper Collins, 1998, p106.
- 2 Voluntary Membership of Guilds and Associations Act 1994
- 3 The Acts Amendment (Student Guilds and Associations) Act 2002
- 4 Tertiary Education (Amendment) Act 1994
- 5 Tertiary Education (Amendment) Act 2000
- 6 Higher Education Legislation Amendment Bill 1999
- 7 Senate Employment, Workplace Relations, Small Business and Education Legislation Committee, Consideration of the Provisions of the Higher Education Legislation Amendment Bill 1999, May 1999, p16.
- 8 Transcript of Address by the Hon John Howard MP at the Opening of the 2003 ALSF Federal Council, 7 July 2003

### Bio

Gerry Wheeler is a past President of the Australian Liberal Students' Federation. He has worked in several political roles, including as an adviser to Prime Minister John Howard, and is now employed in the defence industry.



Alastair Furnival offers a set of core beliefs for modern conservatives, and asks whether conservative government is tenable in the face of new media technologies.

## THE CHALLENGES OF A MODERN CONSERVATISM

In his preface to *The Order of Things*, Michel Foucault describes his unease with Borges's famous Chinese taxonomy of animals: the fourteen categories including such clear delineations as: "a) belonging to the Emperor; e) sirens; j) innumerable; m) having just broken the water pitcher" and so forth<sup>1</sup>.

Foucault, who is from conservatism's perspective perhaps the most inimical of 20<sup>th</sup> Century philosophers, makes a nonetheless critical observation on this list: viz. that it illustrates (albeit comically) the difficulty of expressing what is common, through a set of discrete statements.

This is the core challenge presented to any attempt to conclusively define conservatism in a common, contemporary way – any prescribed list of its features risks either, by chasing inclusiveness being so brief as to be meaningless, or through pursuit of orthodoxy, becoming so exclusive as to offend all but a few.

The comment will doubtless be made that this is the challenge to any political philosophy, but I would argue that conservatism is a special case.

The totalitarian philosophies of the 19<sup>th</sup> and 20<sup>th</sup> Centuries were characterized by a pursuit of practical orthodoxy in Central/Eastern Europe and elsewhere, and intellectual rigour on the campuses of the Western world.

Liberalism, by contrast, has always defined itself by its breadth and inclusiveness, taking Mill's doctrine on the limits of legitimate power as its starting point, leading to a concept of freedom that is the diametrical opposite of fascism/communism/socialism.

Conservatism, however has always been regarded as a philosophy of its time and place, rather than of an abstract code. In particular, at least since Burke's rebuke to the French Revolution, it has been regarded as a philosophy of respect or attachment to institutions *per se*, in place of an assessment of their relative value.

The story is recorded of a six-year-old Enoch Powell, visiting Caernarvon Castle, and removing his cap upon entering a particular room:

*"Asked by his father why, he replied it was because in that room the first Prince of Wales had been born. His instinctive regard for institutions and rank was already apparent; it was part of the Toryism he would later describe as congenital"*<sup>2</sup>

It is the alleged concern for the institution as it exists, rather than as it (or a replacement) might ideally operate which has underpinned derision of conservatism as a passive, reactive or unimaginative philosophy.

This article is intended to some extent as a retort to that criticism. Equally, it is written as a discursive invitation to an ongoing debate on the nature and meaning of conservatism in 21<sup>st</sup> Century Australia.

It is by no means intended as a last word in defining conservatism, nor as a comprehensive overview of current conservative thinking or writing, but as a starting point for what will hopefully be a lively discussion in coming issues of this magazine.

## Respect and Romanticism

To start is offered what would probably be the description of conservatism least-accepted by advocates of competing political philosophies: conservatism is, above all, a *romantic* philosophy.

The romanticism of conservative thought has three clear expressions. First, to the extent that conservatism is defined by a focus on institutions, it is informed more by the history and cultural interweave of those institutions, rather than by their casual existence.

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This is illustrated in the support of many (though not all) Australian conservatives for the Monarchy, and by an even greater percentage for the current Constitution.

Secondly, conservatism is the philosophy that brooks imperfection in policy and institutional operation not as a matter of political pragmatism, but out of an innate respect for long-term equilibrium, and a disdain for transient political fashion.

The third expression, and corollary to these first two, lies with a concern for the pace of change, and the need for more than simple majority support for reform.

Of course, all but the most diehard revolutionaries these days accept that democratic politics requires incremental and careful persuasion around new ideas and regulations: hence the amounts spent on advertising campaigns both for and against policy reform.

But conservatism goes a step further, transcending the requirement for a simple majority, to require that there is not a legitimate section of society who will feel great discomfort at the content or pace of change.

The focus of this first issue of *the conservative* is on federalism, which offers a key example. Within the Australian polity, there is a view,

particularly amongst younger parliamentarians and political thinkers, that the States are inevitably somewhat vestigial, representing a relic of the history of Australia, potentially even providing a brake on its future.

However, while this may lead to a debate on the sharing of revenues and division of services, there is little apparent sympathy for the idea of replacing the Federal arrangements with a single national political structure.

At least in part, this derives from an understanding of, and respect for many Australians who see their States as part of their personal and cultural identities. Whether these are based on the sporting obsession of Victoria, the 'different' attitude of Queensland or the 'new frontier' feelings of Western Australians, these concepts of identity are important.

It may be that twenty years from now, when the ranks of those who remember an earlier Federation, less-utilitarian State Governments and a closer community are thinner, that the idea of Federalism will be a simple question of economic efficacy. But for the moment, the conservative perspective holds that is a valued institution, therefore it is of value.

There are echoes, in this stance of respect for diversity, not just of the British Conservative thinkers, but back to Aristotle, and his assertion in 350 BC that:

*"Of forms of democracy first comes that which is said to be based strictly on equality. In such a democracy the law says that it is just for the poor to have no more advantage than the rich; and that neither should be masters, but both equal. For if liberty and equality, as is thought by some, are chiefly to be found in democracy, they will be best attained when all persons alike share in the government to the utmost."*<sup>3</sup>

The population and geography of Australia necessarily preclude any form of government other than a representative parliament. This presents a significant conundrum for those who want the people to "share in the government to the utmost."

The 'romantic' conservative position offers an answer here: viz. that the swell of community desire for significant change, and particularly institutional change should be more quantifiable than in a simple majority: it should be omnipresent.

While Aristotle's views have been harnessed in support of every imaginable political philosophy, one might suggest that the conservative requirement of broad, not just simple majority support for radical change might best satisfy his apprehension at the prospective tyranny of 'extreme democracy.'

Burke extended this in his comments on the distinction between the interests of a constituency and a nation, when he noted that:

*“Parliament is not a congress of ambassadors from different and hostile interests; which interests each must maintain, as an agent and advocate, against other agents and advocates; but parliament is a deliberative assembly of one nation, with one interest, that of the whole.”<sup>4</sup>*

‘The whole’, cannot accept a majority idea which causes great discomfort in a large minority group.

This conception of democracy as the guardian of the broadest public interest clearly distinguishes conservatism from totalitarian philosophies, as does its respect for history, balance and the gravity of both institutions and views which have stood the test of time. The latter is also a strong distinction from liberalism.

### Defining the Core

A romantic respect for history, a reasoned respect for the broadest community, and an expression through democratic government rather than direct action or revolution, together form the *character* of contemporary conservatism.

But conservatism, at least as currently exercised in Australia, combines this character or framework with a series of specific objectives.

Six bear mention here, which are certainly not an exhaustive list, but which should be enough to provoke a discussion.

First, conservatism is nationalistic to the extent that it believes the development of policy ends with the National (or where pertinent State) Government. On this point, the Howard Government’s preference for local action rather than subjugation to international treaties such as the Kyoto Protocol is consistent with a conservative perspective on the nation as the highest institution.<sup>5</sup>

It was only after considerable intellectual struggle on this precise issue that the Government eventually ratified the 1998 Rome Statute providing for the establishment of the International Criminal Court. Many conservative nationalists argued that such ratification would amount to a serious assault upon Australia’s political and legal sovereignty.

Passage of the enabling legislation was only assured after there was a decision to incorporate a declaration reaffirming the primacy of Australian law and the Australian legal system and declaring that no person could be arrested on a warrant issued by the Court without the consent of the Commonwealth

Attorney-General.

At a much earlier point in the debate, the Foreign Minister noted as a clear legal precept that:

*“Australia strongly supports the view that national jurisdiction should take precedence over the jurisdiction of the Court where that national jurisdiction is able and willing to deal effectively with alleged crimes. Primary responsibility for investigation and prosecution should remain with the State.”<sup>6</sup>*

This assertion that domestic sovereignty is more important than international law is not supported across the Australian Parliament, but it is a distinctly conservative position.

The second common objective of Australian conservatism lies with its belief that the economic function of government is to ensure the efficient operation of the marketplace, and not to supplant it. From this principle, we can see as fundamentally conservative the focus of the Howard Government on efficient but not restrictive competition and corporations law, combined with its first-term disposal of market-substitutable assets and activities.

Third, conservatism is about the rights of the individual, with no amplification of those rights via the formation of a collective, whether voluntary or compulsory. This is a characteristic it shares with liberalism, and it is this philosophical coincidence that allows a continuing, if occasionally difficult marriage between the conservative and liberal tendencies of the Liberal Party of Australia.

Fourth, conservatism accepts and welcomes the prospect of a fully meritocratic economy and society.

From this perspective, any philosophy of solving wealth disparity by holding back the hard-workers and high-achievers is antithetical to conservative thinking.

I would argue that the fifth core tenet of conservatism in Australia should be that there is a natural argument for government that goes

beyond the obvious necessities of nationhood, such as diplomacy, defence and major civic infrastructure.

It is at this point that conservatism most clearly parts company from the libertarian tendency with which it is commonly aggregated in the name of ‘the Right.’

Conservatism brooks two key departures

here, viz.: it actively pursues compassion, whereby emphasis on individual rights and individual responsibilities does not preclude support for people historically left on the margins, whether extremely poor, with disabilities or mentally ill; and it accepts that there are

conservatism is about the rights of the individual, with no amplification of those rights via the formation of a collective, whether voluntary or compulsory

significant macroeconomic efficiencies in government funding the establishment of some public goods (although ongoing ownership may not be necessary).

The sixth and final core tenet of conservatism is the most problematic. Conservatism is by its nature not a relativist philosophy, and asserts that some values are superior to others.

However, there is significant heterodoxy of belief within what may be broadly described as the conservative 'movement' in Australian politics when the question arises as to the basis for higher values.

As the media continue to note with little attendant critical analysis, there is an apparent ongoing convergence between conservative politics and conservative Christianity in Australia. This is commonly presented as somewhat sinister, and superficially contrary to the notional separation of church and state. However, even the most cursory examination will show that such alliances are primarily driven by the recognition of common ground, rather than subterfuge.

That said, the use of Christian reference points for public policy is likely to increase, and this presents a challenge to the retention of a common philosophical framework within political conservatism over the next decade.

### The Pace Problem

Leaving aside the potential for a minor schism on the significance of Christian values, conservatism as described in this article faces with significant communications challenges in coming years.

Driving these is the change in the pace of history. For a philosophy which relies on longer timeframes to average out the vagaries of political fashion, the impact of modern technology may be highly confronting.

There are already clear and previously unpredicted challenges to the sovereignty of national governments through new communication modes, in areas ranging from gambling to the dissemination of defence secrets.

The impact of technological acceleration is being felt in few areas as keenly as in the dynamic between media and Government.

The low cost, simplicity and consequent proliferation of new media means governments are given less time to resolve 'pressing' questions. Many of these may have, in the past, been treated with the luxury of a passing fad, but the need to fill the expanding plethora of paper, spectrum and pixels can allow fringe groups to build them into a sustained political problem.

This shift may be less significant for more relativist political philosophies, but it has the potential for a profound negative influence on the conservative approach to government.

Paul Seabright, Professor of Economics at Toulouse, has noted, on the use of one-to-many media to trigger emotions (such as national pride) in support of policy:

for a philosophy which relies on longer timeframes to average out the vagaries of political fashion, the impact of modern technology may be highly confronting

*"[It is not] to say that the daily trickery of politics is always to be deplored. Some of it may serve the interests of prosperity and peace. But the fact that similar emotions can be harnessed to both peaceful and aggressive ends means that we cannot tell from the quality of the emotional interaction alone what its overall social consequences will be."*<sup>7</sup>

The ambiguity of emotional response and the capacity of professionally-managed media to heighten, distort and direct it, may lead to the ability of governments to observe the deep-felt desires of the community becoming confused. In this environment, a deliberately conservative approach to politics becomes extremely difficult.

However, it seems equally likely that the expansion of information, choice and cross-national activity which new technology offers will sooner or later be seen by the broader community as a threat.

On issues such as data privacy, display of pornography, financial fraud and communication between terrorist cells, there is already a clear public backlash. The underlying drivers of individual rights, objective values and national security are all consonant with conservative philosophy.

It is unlikely that a revolutionary Luddite movement will rise up and slow the pace of technology, or that any government would be complicit in such an act. Nor would such a market distortion be consistent with current conservative thinking.

But there are two fair hopes. First each 'online community' because of its homogeneity of purpose, offers nothing like the natural dynamic of a traditional community. An appreciation of this contrast may allow people in turn to appreciate the complexity of the challenges faced by governments.

Second - and in tandem with the first - the risks and costs of operating in new media and communication environments may further enhance a community understanding of the value of care and carefully-paced reform by governments.

These hopes may not be entirely new. Edmund Burke wrote in 1798: *"To innovate is not to reform."*<sup>8</sup> We should be careful always to bear in mind this distinction.

- 1 Foucault, Michel, *The Order of Things (Les Mots et les choses)*, Routledge, London, 2002, p.xvi
- 2 Heffer, Simon, *Like the Roman*, Weidenfeld & Nicholson, London, 1998, p.5
- 3 *Politics*, Book 4, Part IV
- 4 Speech to the Electors of Bristol, 3 November 1774
- 5 For those who would point out that our constitutional arrangements contradict this point, we are talking here about the practical governance of the nation.
- 6 Downer, Hon. Alexander, "The International Criminal Court : Our Commitment to Future Generations", Speech to the Diplomatic Conference on the Establishment of an International Criminal Court, Rome, 15 June 1998
- 7 Seabright, Paul, *The Company of Strangers: A Natural History of Economic Life*, Princeton University Press, Princeton, 2004, p.238
- 8 Letter to a Noble Lord, 1798

## Bio

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## 21 Theory and Philosophy



This article is a transcript of US Congressman Mike Pence's (R-Ind) address to the 2004 Conservative Political Action Conference.

## STATE OF THE CONSERVATIVE MOVEMENT

Picture, if you will, a ship at sea. A proud captain steps into the sunlit deck of a tall ship plying the open seas of a simpler time. Its sails full and straining in the wind, its crew are tried and true, its hull, mast and keel are strong but beneath the waves, almost imperceptibly, the rudder has veered off course and, in time, the captain and crew will face unexpected peril.

The conservative movement today is like that tall ship with its proud captain, strong, accomplished but veering off course into the dangerous and uncharted waters of big government republicanism.

I'm Mike Pence and I'm From Indiana.

And I can't tell you what an honor it is for me and my family to be with you today.

I feel I should ask the question of Admiral Stockdale, the question many of you must be asking, "who am I and why am I here!"

All I can say is that I am a Christian, a Conservative and a Republican in that order and that I am deeply humbled to address the most important gathering of conservatives in America!

I am especially honored to address the state of the movement before so many who have done so much for the cause of conservative values.

As we reflect this morning on battles past and future, the words of David before Goliath come to mind when he asked his countrymen, “is there not a cause?”

Conservatives like you gathered here never suffer that question.

Conservatives know the cause: to “establish justice, ensure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity.”

And by the standards of these fundamental objects of the Republic, American conservatives can take considerable pride in the past three years, that the ship of conservative Republican government in Washington is strong.

And our movement *is* strong.

In promoting national security, economic prosperity and the sanctity of human life, conservatives made measurable gains in 2003.

Under the leadership of President George W. Bush and a Republican Congress, we have provided for the common defense –which the Federalist reminds us is the first and most fundamental object of all.

Ours was a nation under attack as I stood on the east lawn of the Capitol on September 11, 2001. I stood beneath a sky filled with mud brown smoke, people running in every direction...F-16s going supersonic at treetop level to intercept an inbound menace over Pennsylvania...and in the midst of the chaos of that time, stood George W. Bush, his arm draped over the shoulder of a bone-weary fireman, speaking courage through a bullhorn to a listening nation.

And we saw those words matched by deeds of equal valor.

These are the deeds that ousted the Taliban in Afghanistan, and have now defeated and captured the butcher of Baghdad.

These are the deeds that have yielded a safer America and a safer world, visible to all but an angry, frustrated few who remain stubbornly and wilfully blind.

Through it all, Republicans in Congress and conservatives throughout the land have stood steadfastly behind our president whose personal courage and bold leadership has made our families measurably safer.

To provide for the common defense at home.

And to project power in the national interest abroad.

Because of conservatism, America is defending freedom at home and abroad.

And since conservatives were the margin in the disputed election of 2000, conservatives can take credit that America has this man as our president “for such a time as this.”

At the same time, we have promoted the general welfare with the only means that ever works - the means that unleashes the enterprise and initiative of the American taxpayer. Under the leadership of President Bush and the Republican Congress, two successive tax cuts have provided the largest tax relief since the days of Ronald Reagan. Just as they began to do in 1983, the positive results are now pouring in with each day’s economic

news. Americans are going back to work. Businesses are expanding and this president’s determination to act on his conservative Republican principles is the reason for our returning prosperity.

And on this, the 31<sup>st</sup> Anniversary of *Roe v. Wade*, we can finally progress in securing the inalienable right to life for millions of unborn Americans.

Thanks to the unselfish, unflagging efforts of conservatives who have devoted themselves to being the voice for the voiceless, we can now point to the first major legislative victory since the legalization of abortion in 1973.

A Republican Congress passed a ban of “partial birth abortion” and this Republican president signed it into law.

Republican governance, in these respects, has been conservative governance.

And if any of you believe George W. Bush is not the right man for our country, and not the right man for conservatives to support, you need look no further than these victories in national security, economic policy and the sanctity of life to know that George W. Bush is the right man for America, equal to the times and worthy of our trust.

But despite these enormous conservative achievements, there are troubling signs that the ship of conservative governance is off course.

While Ronald Reagan said famously, “government is not the solution to our problem, government is the problem” many Republicans - even many who call themselves conservatives - see government increasingly as the solution to every social ill and - let us be clear on this point - this is a historic departure from the limited government traditions of our party and millions of its most ardent supporters.

And this shift to faith in government is especially clear to me.

Not because I am a congressman, but because not long ago, as I watched the children’s animated movie “Ice Age” with my kids I realized...I am the frozen man.

despite enormous conservative achievements, there are troubling signs that the ship of conservative governance is off course

You remember the frozen man...born in a simpler time, slips into the snow and thaws out years later in a more sophisticated age.

Well, I first ran for Congress in 1988. An entrenched Democratic majority controlled Congress, frustrating President Reagan at every turn.

A band of heroic House conservatives were challenging Speaker Jim Wright and welfare state politics; a balanced federal budget was as much a fantasy as a Republican majority in Congress...but some of us believed. We believed we could reduce the size and scope of government and halt the slow march to socialism embodied in the welfare state politics of the left.

I lost my bid in 1988 and again in 1990.

There's a saying in politics: "When you're out, you're out!"

Well, I was out for 10 years.

And when I was finally elected to Congress in 2000, I was like the frozen man...frozen before the revolution, thawed after it was over...a minuteman who showed up 10 years late!

A decade ago, when I first ran for Congress, Republicans dreamed of eliminating the federal Department of Education and returning control of our schools to parents, communities and States.

Ten years later, I am thawed out, take my oath of office in the 107<sup>th</sup> Congress and join the revolution and they hand me a copy of H.R. 1...One...as in our Republican Congress's number one priority.

The "No Child Left Behind Act." The largest expansion of the federal Department of Education since it was created by President Jimmy Carter.

In the end, myself and about 30 House conservatives fought against the bill and were soundly defeated by our own colleagues.

Our Reaganite beliefs that education was a local function were labeled "far right" by Republicans and the President signed the bill into law with a smiling Ted Kennedy at his side.

Conservatives were told to bear up...that this was the exception, not the rule.

And so, relieved to have that experience behind me, I anxiously awaited a new H.R.

1 for a new Congress...an H.R. 1 I could be proud of. And so at the onset of the 108<sup>th</sup>, I was handed H.R. 1...the number one priority...the Medicare Prescription Drug Bill.

The largest new entitlement since 1965!

To the frozen man it was obvious.

Another Congress.

Another H.R.1.

And another example of the ship of our movement veering off course.

Actually this bill started out promising. The president asked Congress for a very limited program...extending existing welfare benefits to seniors just above the poverty level where most of the one in four seniors without prescription drug coverage reside.

Many conservatives, me included, were prepared to support this limited benefit. I told the president we shouldn't make seniors choose between food, rent and prescription drugs...we were a better country than that.

But instead of giving the president what he requested, the Congress...the land of the \$400 hammer...set sail to create the largest new entitlement since 1965...a massive one-size-fits-all entitlement that would place trillions in obligations on our children and grandchildren without giving any thought to how we were going to pay for it.

Conservatives in the House were faced with a difficult choice...oppose the president we love...or support the expansion of the big government we hate.

Twenty-five rebels decided to make a stand for the principle of limited government.

When all the votes were counted, we were one rebel short.

In the end the bill passed.

The welfare state expanded.

And the ship of conservative government veered off course.

But I will always believe that the stand we took mattered. Even in defeat.

Sometimes a small group of people can take a stand, be defeated and still make a difference.

Like in 1836 when less than 200 men fought against thousands of Mexican forces to defend an ancient Christian mission on the plains of Texas.

Though they died to the last man, the Texas volunteers within those missionary walls exacted such a horrific toll on the Army of Santa Anna, that his aid, Col. Juan Almonte

privately noted, "One more such glorious victory and we are finished."

And so they were.

The inspiration of the men who made their stand at the Alamo fueled the victory that Sam Houston would lead just six weeks later.

"One more such glorious victory and we are finished."

sometimes a small group of people can take a stand, be defeated and still make a difference

One more big government education bill.

One more new government entitlement.

One more compromise of who we are as limited government Republicans, and our majority could be finished.

So then, the state of the movement:

Strong, on the advance, but veering off course from our commitment to limited government.

The time has come for conservatives to retake the helm of this movement and renew our commitment to fiscal discipline and to what we know to be true about the nature of government:

Conservatives know that government that governs least governs best.

Conservatives know as government expands, freedom contracts.

Conservatives know that government should never do for a man what he can and should do for himself.

And conservatives know that we never expand the welfare state but that we don't reduce the freedom of its recipients and all those condemned to pay its price in confiscated taxes.

And conservatives know that if you reject these principles of limited government and urge others to reject them you can be my ally, you can be my friend but you cannot call yourself a conservative.

As I close I think about the year ahead.

The unforeseeable challenges our nation may face.

And I think of the heroes we will likely bid farewell.

And I think of Ronald Wilson Reagan.

I met President Reagan in the summer of 1988.

I was a 29 year-old candidate for Congress and he was winding down a presidency that changed the world.

It was a candidate photo-op in the Blue Room of the White House.

I was determined to say something of meaning to the great man.

After we exchanged pleasantries, I told him I was grateful for everything he had done for the country and everything he had done to inspire my generation of Americans to believe in high ideals.

He seemed surprised, his cheeks appeared to redden with embarrassment and he said, "Well, Mike, that's a very nice thing of you to say."

Moments later in the ballroom he took a minute to respond to my and others' accolades with characteristic humility and optimism saying:

"Many of you have thanked me for what I did for America but I want

you to know I don't think I did anything for this country - the American people decided *it was time to right the ship* and I was just the captain they put on the bridge when they did it."

It's time for conservative Americans to do what Reagan did.

It's time for conservative Americans to right the ship again.

To celebrate our great Republican President and Congress that are leading our nation's progress in national security, economic prosperity and value of human life.

But also to see her listing to port...in the direction of big government and set her right again.

And to know that this is not a sign of disloyalty but of true loyalty to principle.

When a ship is approaching a rocky coast, the life of the ship and its crew depends on the navigator with his sextant to counsel the captain and crew to steer clear of the shoals and if need be to forcefully oppose the captain when the fate of the ship hangs in the balance.

This is our cause.

To stand with our captain as he leads us well.

And to right the ship in that where she is adrift.

And this cause will prevail.

For the cause of freedom is not ours but His - "the author and finisher of our faith."

And I believe with all my heart that He who set this miracle of democracy on these wilderness shores will see our cause through tomorrow as surely as He has seen it through every yesterday.

Thank you for all you do to keep the cause of conservative values alive in this shining city on the hill, this last best hope of earth, these United States of America.

God bless you and God bless the USA.

### Bio

Congressman Mike Pence was first elected to the US House of Representatives in 2000, and has represented the 6th District, incorporating most of Eastern Indiana since 2002. In September of 2004, Rep. Pence was unanimously elected Chairman of the House Republican Study Committee for the 109th Congress. The Republican Study Committee is the largest caucus in the House of Representatives, comprised of over 100 House Republicans, and has been the leading voice for advancing conservative social and economic issues in Congress since the mid-1980's. His website is at [www.mikepence.house.gov](http://www.mikepence.house.gov)



Nick Minchin explains that until the remainder of Telstra is sold, it will suffer from the absence of capital market discipline.

## WHY WE SHOULD SELL TELSTRA

Last month, Cabinet decided to introduce legislation into the Parliament to end Government majority ownership of the country's dominant phone company.

For the last 4 elections we have argued that Australians' interests were no longer served by retaining full Government ownership of Telstra.

We have also argued, it is the Government's role as regulator – not owner – of service providers that enables us to ensure quality, price and competition standards are adequate.

This was the underlying premise of our discussions within the Coalition parties ahead of our decision seek Parliamentary approval to sell our Telstra shares, and resulted in a policy approach that addresses the need of all Australians to have access to the best-possible telecommunications services, while implementing our long-promised commitment to free our largest company from public ownership.

Whilst we have now taken the political decision to seek legislative authority for the sale of our Telstra shares, convincing Australians of the wisdom of this decision remains a challenge in the year leading up to our likely sale window on October/ November 2006.

There are 3 broad arguments for the full sale of Telstra:

- o The full sale will liberate Telstra from the shackles of government ownership
- o It will remove our conflict of interest as both owner and regulator
- o It will diversify the Government's investments.

But in arguing the case for selling Telstra, we must also address the fundamental question that must be asked of all Government-owned businesses – are they providing a service that the market cannot or will not deliver?

If the answer is no – as it typically is – how can Government justify owning any commercial enterprise?

The recent Productivity Commission report on Financial Performance of Government Trading Enterprises 1999-00 to 2003-04 adds substantially to the arguments against Government ownership of commercial enterprises.

It found 55 per cent of all State and Federal GTE's monitored earned a return that was less than the 10-year bond rate.

A greater percentage failed to make a commercial rate of return.

Allan Fels and Fred Brenchley starkly described the situation in the Financial Review by saying that Australians would be better off financially if the money tied up in more than half of the Federal and State Governments' businesses was invested in the bond market instead.

So why does this underperformance come about?

Partly because of the conflict of interest alluded to above – that governments want outcomes from GBEs other than a commercial return, and demand these outcomes in ways that are not always transparent.

But poor performance comes about simply because of government ownership, leading to an absence of capital market discipline and in some cases some serious capital distortions.

Many of these businesses offer insufficient shareholder returns because they have a captive shareholder – the taxpayer, who has no ability to sell down their holding and seek better returns elsewhere.

At the other end of the spectrum, the PC report shows strikingly large dividends being taken out of some State GBEs – often leading to payout ratios well over 100%.

This reeks of dividend stripping by State governments, as we have seen with Queensland's power companies.

But the discipline of the private capital market goes further than dividend policy.

It also impacts on the efficiency with which the capital invested is used.

As the consultancy ACIL Tasman recently noted, power privatisation in Victoria has meant that generators that previously operated at 70 per cent capacity now operate above 90 per cent.

And this has occurred with lower power prices, greater reliability and an improved safety performance across the industry.

ACIL noted that in Queensland, there is an oversupply of generation capacity, but new investments are planned that will reduce the returns both to the new and existing generators to below commercial levels.

When you have private investors, you have to think hard about investment decisions and ensure you get the most efficient use of your assets.

Also, as the electricity example shows, although you can get significant efficiency gains from product-market competition (through the national grid and customer choice), you only get the full benefit by also exposing the industry to capital market competition – the need to attract scarce capital from competing uses.

The part privatisation of Telstra, in 1997 and 1999 injected capital market competition. The company has had to think carefully about its capital management, its dividend policy and the value of any acquisitions.

But the law requiring 50.1% government ownership has still created capital distortions.

It means that Telstra has been unable to fund any new investment by raising equity.

Full privatisation is the step which finally unshackles the company, subjecting it to full competition in both the product and capital markets.

poor performance comes about simply because of government ownership, leading to an absence of capital market discipline and in some cases some serious capital distortions

I alluded earlier to the fact that it also removes the Government's conflict of interest inherent in being both owner and regulator.

The Government is in the very difficult position of having to find a balance between its responsibility as the industry regulator and its responsibility for the taxpayers' 6 billion shares in Telstra.

As Finance Minister, my job in Cabinet is to argue the case for the taxpayers as shareholders, while Helen Coonan must argue the case for objective, impartial regulation.

The Cabinet has to navigate its way through these conflicting responsibilities every time it deals with telecommunications issues.

For every regulatory decision we make which the market perceives to be bad for Telstra, taxpayers lose \$64 million of their investment for every 1 cent fall in the share price.

It is one of those political paradoxes that if Government Ministers were making decisions affecting a company in which they owned some small number of shares, our opponents and the media would be quick to cry 'conflict of interest'.

In this case we own 6 billion shares, but there is major opposition to us removing ourselves from the conflict in which we find ourselves.

I maintain that the best way for the taxpayer to get value for their investment in Telstra is not to sacrifice competitive outcomes in the telco sector, but to seek superior returns through diversification of the

Government's asset base.

Telstra's main form of shareholder return in recent years has been through dividend yield.

And it is a great yield story – currently around 5.9% fully franked.

This is a point I will be making quite a lot to potential investors over the next 12 months.

Telstra is a good investment, but that doesn't make it a good investment strategy to put all your eggs in one basket.

To illustrate the opportunity cost, the Scoping Study found that if the Government's remaining shareholding in Telstra had been sold as part of T2, and the proceeds invested in a diversified portfolio with dividends reinvested, the Government would be \$54 billion better off today.

Thus it can fairly be said that Labor's refusal to support Telstra sale legislation in the Senate has cost taxpayers \$54 billion.

We can't make bold predictions about the return a diversified investment portfolio might earn in the years ahead, and have not yet released the investment mandate for the Future Fund, but we could reasonably expect it to earn average returns higher than the 5.9% dividend yield on Telstra. For example, the Queensland Investment Corporation has earned an average 9% per annum over the past 10 years.

All this explains why I told the National Press Club last month, that I hope our Christmas present to the nation in December 2006 will be the full sale of our remaining shares in Telstra and the deposit of the proceeds into the safe hands of our new Future Fund – to be invested wisely for the benefit of the generations of Australians to come.

### Bio

Senator Hon. Nick Minchin has represented South Australia in the Senate since 1993. As a member of the Howard Government, he was Parliamentary Secretary to the Prime Minister 1996-7, Special Minister of State and Minister Assisting the Prime Minister 1997-98, Minister for Industry, Science and Resources from 1998-2001, and has served as Minister for Finance and Administration since November 2001. Senator Minchin has been Deputy Leader of the Government in the Senate since October 2003, and Vice-President of the Executive Council since July 2004. Prior to entering Parliament, he was Deputy Federal Director of the Liberal Party, as well as State Director in South Australia from 1985-93.

# the conservative

## LETTERS

Future editions of *the conservative* will have a "letters to the editor" section.

If you want to comment on any of the articles in this edition, to agree, disagree or just express your thoughts, please write to us. If there is a particular topic of Australian public policy on which you want to express a conservative (or anti-conservative) viewpoint, we look forward to hearing from you.

Please send letters to:  
the conservative  
GPO Box 1600, Sydney NSW 2001,  
or e-mail us at: [mail@conservative.com.au](mailto:mail@conservative.com.au)



Alexander Downer reflects on failures by past Australian Governments to show international leadership for freedom, and argues that the Howard Government's reversal of this approach brings Australia into line with the best of contemporary international leadership.

\*This paper is an update of the Earle Page Address given in May this year.

## ON HISTORY AND LIBERTY\*

The Free World today faces the grave threat of fundamentalist terrorism. Thousands of innocents already have been killed, cities are on alert and armies have been mobilized.

The objectives of the terrorists seem incomprehensible. They favour chaos over order, oppression over freedom and violence over reason. They present an historically formidable challenge and civilization can either triumph over it or be defeated.

This battle is often considered from the perspectives of military action, policing efforts and intelligence gathering. But at its heart is an ideological struggle and the desire to bind others to it by fear and force – by terror.

This is frightening but the need to defend our ground is not completely new. It takes us back to earlier contests over our values - earlier assaults on liberty, on freedom and on the rights of the individual when others wanted to impose control and totalitarianism.

The resolve we have shown before is what is required now, in our battle against a new kind of totalitarianism. Once again, those who believe in the cause of liberalism and liberal values are required to stand up for what is right to defeat this new scourge.

Liberals support freedom in all endeavours. Think of Menzies, in opposition, becoming the voice of the Forgotten People, or what John Howard calls the great mainstream of Australian society. These are the constituency that Labor in power had so relentlessly ignored. Think too of the battle over nationalizing the banks. Had the Liberal Party not been there, championing the cause of economic liberty – something Labor has never quite understood – it is the people's savings that would have been nationalized. We would have been saddled with the long term disasters of a flight of international capital and a troglodyte command economy. Instead, there was a golden age of unprecedented prosperity.

Along with economic liberty, Liberals have demonstrated a steady commitment to political liberty over those 60 years. In the Cold War, we weren't prepared to settle for the paralysis of détente. In our own region, during the Korea war, the

Insurgency in Malaya and the Vietnam War we understood that what we were doing was within the broader front of the battle of ideas with totalitarian Communism. Despite reverses, it was a battle we knew the Free World had to win and could win.

They were military encounters, of course. But the fifties also saw pioneering economic and cultural engagements in the region, like the trade agreement with Japan and the Colombo Plan, not to mention Menzies' and Spender's diplomatic contribution to the great bulwark of our national security, the ANZUS Alliance.

We are right to be sceptical of those who claim ownership of history. Who can forget, for instance, Paul Keating's bleating about what constitutes true patriotism while simultaneously parading a painfully supplicant approach to our Asian neighbours? Nonetheless it is important that we examine the facts and come to dispassionate appraisals of historical struggles and events.

And when we look back over the 20<sup>th</sup> Century there is a strong case that demonstrates the manifest failings of the Left on the great issues of the time. The Left was more committed to ideology over principle. It was happy to sweep away atrocities in the name of the "cause".

In the end, it was the "cause" that was the problem, of course. Time and again atrocities became both the means and the end in various attempts to achieve a socialist utopia. Stalin, Mao and Pol Pot were never short of moral support among leftist groups in Australia and around the world. In the Western political cabals the number of their supporters might even have gone close to matching the tens of millions of innocents they annihilated.

For the Left the Soviet Man was the new future. The ideologically inconvenient fact of the accompanying human rights horrors needed to be put to one side and ignored.

This devotion to the "cause" was most pointed when it came to the support of freedom. Ideology always came first and freedom got in the way. So throughout the 20<sup>th</sup> Century we can catalogue how the Left, whether it was located in academia, the arts, politics or the media, was happy to turn a blind eye to tyranny.

This was true for the Australian Labor Party as it was for the Left across the world. Confronting tyranny was, more often than not, too hard. Aversion and the retreat to isolationism were the preferred policy options. This is most evident in Labor's approach on how Australia should engage with the world.

Curtin initiated what have become concurrent Labor traditions: a failure to be willing to fight for freedom; and hand-wringing about a "Little Australia" incapable of playing anything more than a minor role internationally

Often emblematic of this policy approach is Labor's wartime Prime Minister, John Curtin. Despite his almost mythical hero status in the Labor movement, Curtin's weakness was evident from the early days of his leadership. To placate the international socialists, pacifists and anti-conscriptionists within his own party, Curtin failed to support any moves which might challenge the rise of Nazism through the 1930s.

As the historian David Black tells it: "*he had to avoid adopting a stance which could be interpreted as requiring support for an active military or economic commitment in Europe*"<sup>1</sup>. Curtin and his party held this position as late as the Labor Conference of 1938.

Labor's policy in response to the Italian invasion of Abyssinia in late 1935 was equally weak. Early on Labor made clear it

would not support sanctions and stressed that:

*"the control of Abyssinia by any country is not worth the loss of a single Australian life".*<sup>2</sup>

Mounting his defence of this position, Curtin initiated what have become concurrent Labor traditions: a failure to be willing to fight for freedom; and hand-wringing about a "Little Australia" incapable of playing anything more than a minor role internationally:

"Australia is but a minor power; it is a small nation, remote from the great centres of international civilization," Curtin said when defending his Abyssinia policy, "...we must have regard to our position, to our circumstances, to the place we hold in the geography of the world and to what we are capable of doing towards the maintenance of the peace of the world...Australia should not resort to warlike acts against any other nation."<sup>3</sup>

In 1936, when even the ACTU revised its stand on Abyssinia and approved collective security through the League of Nations in support of Spanish workers, Curtin stood resolute again for appeasement and isolation:

*"To be drawn into war in spite of everything would be bad enough, but deliberately to indicate our willingness to be a participant for or against certain European groups would be a piece of national madness".*<sup>4</sup>

As late as the Munich crisis of September 1938, Curtin persisted with a policy of isolationism and failed to acknowledge the threat posed by Nazism:

*"The wars of Europe are a quagmire, in which we should not allow our resources, our strength, our vitality, to be sunk almost, it may be, to the point of complete disappearance... Our first duty is to Australia. Our position is such that the total of our resources must be available for our own defence. This means, clearly and unequivocally, that whatever else we may do as a dominion of the British Commonwealth of nations, no men must be sent out of Australia to participate in another war overseas."*<sup>5</sup>

**in the crucial early years of the war Labor was, at best, missing in action or, at worst, attempting to curtail Australia's efforts to defend freedom in the face of tyranny**

At the 1938 ALP National Conference, Curtin pandered to the Left by invoking the notion of a capitalist war. He returned to the theme in an article for *The Australian Worker*:

*"The workers do not control the governments of the world. Until they do, it would be suicidal for the workers of Australia to join in supporting pacts, treaties, understandings or obligations of any kind which would involve them in war against the workers of another nation, or a number of nations, at the dictate of capitalist governments."*<sup>6</sup>

Arthur Calwell, a future Labor leader, foreshadowed the kind of analysis he would later bring to the Vietnam War:

*"It should be definitely stated that Australia was against foreign entanglements and overseas alliances, and against participation in Imperialistic wars."*

According to Curtin, even Hitler's escalating demands for Czechoslovak territory:

*"do not justify resort to force in Europe; nor do they warrant war in Europe"*<sup>7</sup>

Curtin used three strands of argument which again have some resonance with Labor's current rhetoric on the contemporary issues that require standing up for freedom.

First, he said that:

*"the Labor party in Australia is opposed in principle and in practice to Australians being recruited as soldiers in the battle fields of Europe"*<sup>8</sup>

Next he redefined the notion of Commonwealth solidarity.

*"We believe that the best service which Australia can render to the British Empire is to attend to its own business, to make certain that we manage Australia effectively, so that we shall have the necessary population and be able to rely upon ourselves in the event of an emergency"*<sup>9</sup>.

Finally he reverted to the "Little Australia" policy. He said:

*"I put it to Australia that we are not big enough to act as a police force in Europe keeping order there"*<sup>10</sup>.

It took Curtin and the Labor party over three years from Munich to endorse an approach which would wholeheartedly attack fascism and support Australia's full engagement in the war effort.

On the eve of the war Labor failed to give full support to the Government of the day.

Instead, in the parliamentary debates of 6

September 1939, it relied on the dogma of its platform. It opposed the compulsory training of Australians for a war effort or home defence, it opposed the sending of expeditionary forces and it opposed joining an all-party Government.

In the crucial early years of the war Labor was, at best, missing in action or, at worst, attempting to curtail Australia's efforts to defend freedom in the face of tyranny. This was demonstrated most clearly in its November 1939 opposition to the Second AIF deployment.

Part of this missing-in-action approach was to mollify the extreme left, whose strength was demonstrated most clearly by the NSW Labor conference of April 1940 calling for a negotiated peace and rejecting any military action against Russia, in spite of Russia's support for Nazi Germany at that time.

Curtin did, of course, finally come around. Therefore, no matter how debatable the extent of Curtin's pre- and early wartime decisiveness, he should always be accorded some respect for leading the nation through its darkest hours.

After World War II Labor, more often than not, reverted to type. It provided a consistent pattern of weak Labor leadership in Australia, particularly on the issues of appeasement, isolationism and shirking international treaty obligations.

Sometimes its efforts were truly bizarre. In the face of the Petrov issue in 1954 and actions by the blunt hand of a totalitarian state, Labor's then leader 'Doc' Evatt still managed to put his faith in the Soviets.

In the aftermath of the Petrov affair he wrote to the Soviet Foreign Minister Molotov, effectively asking whether the Soviet Union had been spying in Australia. Dr Evatt duly read the predictable, but worthless, Soviet denial to Parliament. "*Honourable members may laugh,*" he said, "*but they have to face some facts tonight.....this is the truth of the affair.*"<sup>11</sup>

No wonder Labor went through no end of turmoil in the 1950s. The great Labor Split occurred because vast numbers of Labor members believed their party was too accommodating to communist tyranny.

Evatt and many others all too often proved them right.

In the Vietnam era, the war was lost - not on the battlefields but in the media and in the university campuses. Whatever history's final judgment about that conflict, the Coalition decided that the freedom of the South Vietnamese people from Communist incursions from the North was worth fighting for. By contrast, Jim Cairns, later Deputy Prime Minister, led Moratorium marches in the streets.

Two "highlights" of the Whitlam Government deserve a mention here. In July 1974 Whitlam decided that Australia would be among the first nations of the free world formally to acknowledge the USSR's annexation of the Captive Nations, Latvia, Lithuania and Estonia. Worse, this was done after he had written to the Australian Lithuanian Community, pre-election of course, telling them that he would do no such thing.<sup>12</sup>

Come July 1974, all bets were off as Whitlam endeavoured to seek comfort with the non-aligned and the Soviets. The Australian Government of the day was instead saying "it accepts the realities of the situation."<sup>13</sup> Australia was the only democratic country to accept such "realities".

It attempted to do this in secrecy. In fact, the first news of the sell-out came not from the Australian Government, but from a press agency report in the USSR. If ever there was a shameless sell-out of oppressed and helpless people this was it. Yet to this day Whitlam remains unrepentant. And, of course, history has shown that freedom has triumphed. It is the Soviet Union that now no longer exists and the once Captive Nations who are free and independent.

To underline the point about Whitlam, nothing can top the infamous Iraqi breakfast, where he attempted to elicit a donation from the Ba'ath Socialist government, to fund Labor's re-election campaign.

This approach wasn't just evident when Labor was in Government: it is also a feature of Labor Party when they are in opposition. When the Howard Government challenged the status quo in East Timor, there was no support from the Labor leadership, or even constructive criticism. Australia's subsequent role, diplomatically and in forming and leading INTERFET, was crucial to preserving peace in the region and the liberation of East Timor.

In Timor, in the wars of liberation in Afghanistan and Iraq and in the overall war on terror, the Coalition has been sustained by the conviction

in July 1974 Whitlam decided that Australia would be among the first nations of the free world formally to acknowledge the USSR's annexation of the Captive Nations, Latvia, Lithuania and Estonia

the Coalition has been sustained by the conviction that Australia is a significant country with international military and peace-keeping obligations

that Australia is a significant country with international military and peace-keeping obligations. Along with national capacity, we have a view of the national interest in which the successful prosecution of those conflicts and the success of diplomacy, in furthering the cause of freedom and democracy, is fundamentally important.

Our opponents disagree. In 1999 Kim Beazley's view of Australia's place in the world was this:

*"Let me tell you something I believe in intensely. We are a small country in a world of giants"<sup>14</sup>.*

I reckon that is a pretty surprising thing to say about your own country. In 2001, speaking on the Centenary of Federation, no less, he made the same point, not once but three times.

The "Little Australia" mindset persists in the Labor Party. In 2004 Kevin Rudd defined us in his Asia-Link speech as

*"a small country on the periphery of this region".<sup>15</sup>*

No doubt, along with a preference for populist appeasement and isolationism, it played a part in Mark Latham's thinking when he argued that our contribution to the war on terror should be limited to our own region and that our troops' proper place was not on the other side of the world but at home. Perhaps, in retrospect, he was right to see himself as one of Curtin's heirs.

Of course there's a sense in which all the Australian political class say that they believe in freedom and democracy, at least as abstract ideals. So why then is it important to outline these manifest flaws of our political opponents? The answer is because all too often the facts have been pushed to one side, allowing a tale to be told about the willingness of the Left and the Australian Labor Party to fight for freedom. The reality is entirely less impressive, with their record patchy at best.

Equally, it forms a stark contrast with the Liberal Party position on many of the great issues. We on the conservative side have been unequivocally committed, ideologically and on the ground, to supporting the global struggle for freedom. We have been proved to be on the right side of history.

Since the collapse of the Berlin Wall in 1989, the struggle for freedom has shown itself to be an unstoppable force for change.

In terms of realpolitik, we endorse the view of Paul Nitze, a prophetic figure in America during the Cold War. In his famous National Security Paper Number 68 he put it very plainly:

*"The idea of freedom is the most contagious idea in history, more contagious than the idea of submission to authority."<sup>16</sup>*

Pope John Paul II was another who understood the irresistible force of freedom in the battle of ideas. He grasped how the collapse of Communism in Poland could be achieved without warfare, by harnessing the instinctive attachment to freedom and solidarity which are embedded in Polish culture.

To the sceptics, content to settle indefinitely for détente as a default position, it seemed counter-intuitive or merely foolish. Yet he saw and repeatedly said that it was not wealth or military might, but culture which was the great engine of history.

History has proved him right. History has also established that in the long run free enterprise would outstrip the command economy and the democratic nations would be willing and able to outspend the Soviet empire in the arms race.

Along with military might, when Ronald Reagan came to speak at the Berlin Wall in 1987, he brought with him the moral authority and urgency befitting the spokesman of the free world:

*"If you seek peace, if you seek prosperity for the Soviet Union and Eastern Europe, if you seek liberalization: come here, to this gate. Mr Gorbachev, open this gate. Mr Gorbachev, tear down this wall!"<sup>17</sup>*

What seemed at the time almost unimaginable soon came to pass. The wall was torn down and the Eastern Bloc collapsed. But a fresh threat to our liberty has emerged, in the form of global terrorism. The great struggle of the present is between freedom and terror and its totalitarian ideology.

In 2003 Labor went to water on Saddam Hussein and his regime, declaring Iraq an irrelevance in the war on terror. There was no shortage of so-called realists prepared to say that democracy was unsuitable for export and even that the Islamic world would never accept what they airily characterised as cultural imperialism imposed by force of arms.

What actually happened? Free elections in Afghanistan, in Iraq and in the Palestinian Territories have reconfigured the political landscape. Libya has renounced the use of weapons of mass destruction.

Saudi Arabia has taken a first step on the path to participatory democracy. Egypt is proposing a real contest at its next elections and the Syrian regime has beaten a humiliating retreat from Lebanon. The Cedar Revolution brought nearly a million people out on the streets of Beirut, and fomented the most open vote in Lebanon in generations.

This is yet another powerful reminder of the truth that freedom is the most contagious idea in history. It is far too soon to reach triumphalist conclusions. But the belief of some that the only way out of the political impasses of the Middle East is to introduce democracy and the

experience of freedom into the equation can no longer be dismissed as naïve.

It is a strategy in the battle of ideas which, strange to relate, didn't much appeal to the intelligentsia of the West. However its popular appeal is already some sort of vindication. At street level, as with governments, the experience of freedom can change our self-understandings and the way we relate to one another.

Freedom binds nations together with shared values and priorities. The much closer ties we now enjoy with our next door neighbour Indonesia, relations with Afghanistan and Iraq, the momentum for change in Palestinian-Israeli relations - they are all encouraging signs for the future and for the prosecution of the war on terror. They are all outcomes profoundly affecting Australia's interests. They are reminders of the powerful, even inexorable, force of freedom.

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- 2 Ibid. p. 137.
- 3 John Curtin, In His Own Words: John Curtin's Speeches and Writings, Ed. David Black (Paradigm Books: Perth, 1995) pp 137-8.
- 4 ibid p. 140.
- 5 ibid. pp 148-9.
- 6 ibid. p. 150.
- 7 ibid. p. 149.
- 8 ibid. p. 149.
- 9 ibid. p. 149.
- 10 ibid. pp 149-50.
- 11 Dr H.V. Evatt, Royal Commission on Espionage, House of Representatives, Debates, 19 October 1955, p. 1695.
- 12 PM Accused of Betrayal Over Baltic States, The Canberra Times, 5 August 1974.
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- 14 Kim Beazley, Address to the Nation, 8 July 1999
- 15 Kevin Rudd, "Asialink-ANU National Forum: Australia's Engagement with Asia - A New Paradigm", Old Parliament House, 13 August 2004.
- 16 NSC-68: United States Objectives and Programs for National Security, www.mtholyoke.edu/acad/intrel/nsc-68-1.htm
- 17 Ronald Reagan, Remarks at the Brandenburg Gate, West Berlin Germany, 12 June 1987, www.reaganfoundation.org/reagan/speeches/wall.asp

## Bio

Hon. Alexander Downer MP has served in the House of Representatives for Mayo since 1984. He is a former Leader of the Federal Parliamentary Liberal Party, and has been Minister for Foreign Affairs since March 1996. Before entering Parliament, Mr Downer was a member of the Australian Diplomatic Service, and a political adviser to Prime Minister Fraser.



Michael Brennan compares the different approaches to taxation by Australian and US conservatives, and argues that fiscal responsibility is the better starting point.

## FISCAL RESPONSIBILITY VS SMALLER GOVERNMENT

Philosophical reflection does not always come naturally to governments. It tends to be the lot of an Opposition, typically one in the political wilderness, to lapse into navel-gazing and bouts of internal disagreement about what they stand for, and what practical policies are the most faithful manifestation of those core beliefs.

The advent of *the conservative* is an excellent opportunity for those on the right to pause and reflect on our priorities after nearly ten years of Coalition Government at the Federal level.

One of the strong foundation stones for the Howard Government has been the principle of fiscal responsibility. On coming to office in 1996, the Coalition converted a \$10 billion inherited budget deficit into a surplus, now equal to around \$9 billion or 1 per cent of GDP. Government net debt has been reduced from \$96 billion to just \$16 billion, and is forecast to be eliminated altogether in the near future. Attention has now been turned to the unfunded superannuation liability, with the closure of the main 'defined benefit' scheme to new public servants and by the creation of the Future Fund, which aims to fully offset the unfunded super liability by 2020.

This process of fiscal repair has involved numerous unpopular decisions, but its broad result - the principle of keeping the budget in balance - has won significant community support. So much so, that a balanced budget is now a basic prerequisite for any major political party seeking office at the State or Federal level.

Owing to the success of Coalition Governments in building strong fiscal positions, there appears to be a clear voter perception that the conservative side of politics is better able to keep the books in the black

This clear association between conservatism and fiscal responsibility naturally leads us to ask how the latter is related to other conservative priorities, most notably the objective of cutting the size and scope of government, which most of us would agree is one of our fundamental and ultimate reasons for being.

This question is important for a number of reasons. As a matter of pure theory, fiscal responsibility need not be associated with small government. A balanced budget is *theoretically* consistent with any size of government, including big

government, with high spending matched to equally high taxes. Conversely, small government could co-exist with budget deficits.

In the US, the most conservative Presidents in recent history, Ronald Reagan and George W Bush, have placed much greater emphasis on lowering the tax burden than on maintaining budget balance. The more centrist George Bush Sr. and Democrat Bill Clinton gave higher priority to the budget bottom line.

It appears that most Americans have little trouble identifying Republicans as the party most likely to cut taxes, just as Australians have little trouble identifying the Liberals as the most likely to keep the budget in surplus.

This partly reflects a difference in rhetoric.

The Republicans have been adept at arguing the philosophical case for cutting taxes – enhancing individual freedom, giving money back to those who earned it and providing greater incentive to work, save and generally get ahead. By contrast, the Australian Government's formulation, enshrined in the last three Budgets, has been to say that tax cuts become possible if there is money left over once vital spending priorities have been attended to. Against this backdrop, the Treasurer and Minister for Finance have at times called on the advocates of large tax cuts to illustrate the necessary offsetting reductions in government expenditure that would make such a policy achievable.

Implicit in that formulation is a stark statement about the primacy of fiscal responsibility: to the extent that the desire for tax cuts and fiscal prudence come into conflict, the latter will prevail.

For this reason some free market advocates have argued that a 'fixation' with balanced budgets stands in the way of what should be a conservative's true mission – namely reducing taxes.

What frustrates these advocates all the more is the impression that political reality is stacked against tax cuts, if they are to be delivered within the constraints of a balanced budget. Even quite costly tax cuts, say with an annual cost of \$2-\$3 billion, can be easily lampooned as offering only small improvements in average weekly take-home pay. By contrast, the same amount devoted to new spending would fund any number of politically attractive new announcements. In other words, the argument goes that meaningful tax cuts (hence smaller government) can only be delivered if the Government is prepared to depart from the constraint of a balanced budget.

There is good reason to believe that this view is mistaken. Smaller government is not only consistent with fiscal responsibility, but ultimately depends crucially on it. The various proposals to depart from budget balance in the quest for large tax cuts are at best ineffective and at worst counter-productive. But let us start with what those proposals are.

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## Supply-siders and the Laffer Curve

The first strand of reasoning, invoked considerably in the United States and to a more limited extent in Australia, is the supply-side, or Laffer Curve argument. The Laffer Curve, named for American economist Arthur Laffer, puts forward the proposition that the relationship between tax rates and overall revenue is not linear. The argument goes that over a certain range, increases in tax rates will yield increased revenue to government. However after a certain point, tax rates become so high that further increases only succeed in discouraging people from work. Ultimately, the disincentive effect is so great that overall tax revenue decreases when tax rates are increased.

Conversely, at such a point, a cut in taxes could yield increased revenue, by encouraging people to work more hours, be more productive and hence earn higher incomes that in turn raise more revenue.

The superficial attraction for conservatives is clear – we can have our cake, in the form of a budget surplus, and eat it too, in the form of lower tax rates.

The Laffer Curve formed the intellectual underpinnings of the Reagan Revolution in the early 1980s. Under the Kemp-Roth tax cut of 1981, marginal rates of income tax were cut dramatically but without commensurate reductions in Federal government spending. While there is no question that the long term impact on the US economy was positive, in terms of unlocking the dynamism and productivity of individual effort, the impact on the Budget was less benign. Public debt rose from 19 per cent of GDP in 1981 to 31 per cent in 1988.

The Reagan experience did not *disprove* the existence of the Laffer Curve. As a matter of common sense, its existence is trivial – a 50% tax will raise more revenue than a 0% tax, but it will also raise more revenue than a 100% tax. But the problem for tax-cutters is not to prove the existence of the Laffer Curve, but to illustrate that we are currently sitting on the wrong side of it, such that a cut in tax rates from present levels could result in an increase in revenue overall.

It is hard to make that case in relation to Australia, where taxes are already low by OECD standards and where companies and most workers face a marginal tax rate of 30 per cent. Empirical work has generally put the 'revenue-maximising' tax rate much higher than this. It is also hard to see how a democratically elected government could ever find itself on the wrong side of the Laffer curve to begin with, as this would imply that they had already increased tax rates for no revenue benefit.

This is not to deny that the revenue cost of tax cuts can be partially mitigated by offsetting incentive effects. Indeed, part of the

Government's rationale for increasing the thresholds for the 42 and 47 per cent tax rates in the 2005-06 Budget was to remove the disincentives for employees to work more overtime and earn higher incomes. But the precise impact of these incentive effects on government revenue remains hard to calculate.

Taking current Australian tax rates as a starting point, it is highly unlikely that a tax cut can be designed that would increase, or leave unchanged, government revenue overall.

### Starving the beast

The second strand of argument takes a longer term and more Machiavellian view. It concedes that a large tax cut would cut revenues and send the Budget into deficit. However, by doing this, so the argument goes, the government will have no choice but to constrain its expenditure in future in an attempt to bring the Budget back into balance. Thus the long term impact is that the size of government must necessarily fall. By cutting taxes, we stop 'feeding the beast': thus the beast inevitably slims down.

An obvious objection to this theory is that it relies on the very principle that is being jettisoned – i.e. that a balanced budget is a good thing. It only works if voters and taxpayers see the size of the resulting deficit and seek to redress it through spending cuts. But it is not clear why this would happen if the government has voluntarily abandoned its balanced budget rule.

Secondly, the theory relies on an exogenous shift in public preferences. Assuming that the pre-existing levels of spending and taxation were the outcome of a democratic process, it is unclear why voters would see expenditure cuts as the appropriate mechanism to balance the budget (if they were indeed motivated to balance the budget again), rather than simply putting taxes up again.

The more likely outcome is that voters would not choose to cut spending or to balance the budget again. Rather than 'starving the beast', as the theory claims, the tax cuts would merely change the beast's diet – away from taxes and towards public debt.

### Fiscal responsibility and smaller government

A further flaw in the argument is that it associates smaller government exclusively with lower taxes. Of course, government spending can be just as interventionist and distortional as taxes. There is a strong case

to be made that the size of government should be measured not by taxes alone but by taxes and spending, or perhaps by the greater of the two.

Better still, we need to appreciate that small government is not just about levels of taxation or spending, but the extent to which government decisions intrude on the lives of individuals.

For example, public borrowing of itself is a form of government intervention, distorting capital markets, putting upward pressure on interest rates and potentially altering the number and type of private investment proposals that would otherwise be funded.

This is particularly true if the public borrowing is due to a sudden and dramatic change in fiscal settings, for example away from a balanced budget towards a low-tax, high deficit policy in a short space of time. The resulting macroeconomic jolt (through higher interest rates or inflationary pressures) represents an intrusion into the lives of private businesses and individuals arguably as great and as arbitrary as any new tax or regulation.

Macroeconomic management is a vital and (perhaps oddly) a much under-rated aspect of any program of economic liberalisation and reform. The Hawke and Keating Governments in Australia achieved, with bipartisan support, some positive pro-market structural reforms in areas like financial deregulation, tariff reductions and privatisation of government assets. But the benefit of these reforms was compromised by mistaken and wildly unpredictable macroeconomic settings. Interest rates were on a roller-coaster and rose as high as 17 per cent, while loose fiscal policy saw public debt rise from \$16 billion to \$96 billion in Labor's last five years in office.

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Just as Labor's pro-market reforms sought to remove economic distortions and attract resources into their most productive use, macroeconomic policy mistakes created massive instability and a whole new set of distortions to business and investment decisions.

It should never be forgotten that this policy-induced instability is itself a form of big government intervention.

At an early stage, the Howard Government made two key decisions aimed at restoring macroeconomic stability. One was to grant the Reserve Bank full independence, with a clear anti-inflation charter. The second was to entrench a clear rule for fiscal policy – that the Budget would be kept in balance over the course of the economic cycle.

This policy of macroeconomic stability is, in itself, an important aspect

of smaller government. Clear, self-imposed fiscal and monetary rules ensure economic predictability, allowing firms and individuals to get on with their lives. A balanced budget rule has the added benefit of removing the capital market distortion associated with government borrowing.

Most importantly of all, fiscal responsibility reinforces at a collective level the ethic of personal responsibility which is a central tenet of conservatism. By balancing the budget, the government sends a strong message that nothing is for free. If the community wants services, they need to be paid for. Once the government allows the budget to go unsustainably into the red, this principle is violated, at least as far as current taxpayers are concerned.

If taxes are cut and the Budget sent into a structural deficit, the clear message to the community is that they can continue to enjoy the same level of services for a lot less tax. Admittedly, future taxpayers will have to repay the debts incurred, but they are imperfectly represented by current voters.

Even if Government spending was financed 99% by current taxes and 1% by borrowing, the problem would remain, because each *additional* spending proposal would be (or could be) debt-funded. This would remove any realistic check on the expansion of government. New spending would become almost like a free lunch and the community would lose any sense of outrage at conspicuous waste of public money.

By contrast, with the budget in balance (or in balance over the cycle), any new discretionary spending has a clear cost – it has to be funded through taxes. Even if the new spending is less than the available surplus, there is an opportunity cost in that taxes could be cut as an alternative.

Thus there is a clear incentive for the government and the community to ensure that spending is no greater than absolutely essential.

Social democrats and socialists are not imbued with this same sense of personal or collective responsibility. To them, the role of government is essentially redistributive. According to their world-view, a large proportion of the population should be getting something for nothing in any event. So what if the whole community helps itself to some freebies via public debt?

Conservatives, by contrast, should seek to limit the extent to which large sections of the population feel they are entitled to something for nothing. They will naturally want to keep the collective tax/expenditure trade-off in full view via a balanced budget.

They will also want to keep the personal tax/expenditure trade-off stark

by ensuring that the tax scales do not become so progressive or fiscal policy so redistributive that large sections of the community no longer perceive any cost associated with increased services. Nothing could be more corrosive of the spirit of responsibility advocated by conservatives.

Australia is almost unique in the developed world in having entrenched an in-principle preference in favour of balanced budgets. Other Western nations now approach the challenges associated with the ageing of their populations saddled with massive annual deficits and crippling accumulated debts. Australia faces these challenges with a clean bill of health.

It would be a disastrous folly to throw away those hard won gains, and with them the almost miraculous (and certainly unique) public support for fiscal responsibility.

### Cutting the size of government

If we take the requirement to keep the Budget in balance as a given, how can the size of government be reduced?

Perhaps unsurprisingly, the answer is: ‘the old-fashioned way.’ That is, by remaining ever vigilant about controlling spending – limiting the growth of spending programs, cutting out waste and seeking greater efficiencies. This is the hard grind of annual budget rounds, but it is the only way to ensure sustainable falls in the size of government overall.

with the budget in balance any new discretionary spending has a clear cost – it has to be funded through taxes

As Theodore Roosevelt impressed upon his fellow Republicans 100 years ago, perpetual, mild reform is the path of the true conservative.

The good news is that this approach can yield meaningful results. Over the life of the Howard Government, taxation revenue has fallen from 23.6 per cent of GDP to 21.3 per cent, while total revenue has fallen from 24.6 per cent of GDP to 23.1 per cent. Total spending has fallen from 25.6 per cent of GDP to just 22.1 per cent.

This approach has produced surpluses in 8 out of 10 Budgets, and made possible income tax cuts in the last three. The combined full year effect of those three tranches of tax cuts in 2006-07 is \$12.75 billion, which means that income tax collections in that year will be 10 per cent lower than they would otherwise have been had no tax cuts been delivered over the past three Budgets. That represents a significant reduction in the income tax burden, albeit delivered in a series of bite-size tranches. Most importantly, it is sustainable because it is affordable.

Of course, it should never be claimed that the job is complete. Australian Liberals might differ from the US Republican strategy of cutting taxes at the expense of fiscal balance. However, we should be prepared to take a leaf from their book in advocating the broader

philosophical and economic case for lower taxes. Tax cuts are not merely the dividend of good fiscal management. Nor are they an electoral bribe. They are an economic imperative. We need lower taxes to attract and retain the best talent, to unleash the dynamism and creativity of individuals for the benefit of all Australians and to ensure Australia remains internationally competitive.

Tax cuts are not just good for individuals and families, but good for the nation as well.

Lower taxes should not come at the expense of a balanced budget, but they can nonetheless form a central part of the budget strategy, if each annual budget round is approached with the clear intent of trying to

make room for further tax cuts, within the constraint of fiscal discipline and sound macroeconomic management.

This is the only way to ensure we have a government that is small in size, limited in scope and prudent in the management of its own affairs.

#### Bio

Michael Brennan is currently Senior Adviser to the Minister for Finance and Administration.

# the conservative

## CONTRIBUTORS

From this first edition, *the conservative* will be a quarterly magazine, which means our next edition will be in December.

We're interested in hearing from potential contributors for our next edition, by the end of October. In particular, the conservative will focus on publishing articles by people involved in Australian politics.

Whether you're interested in a specific policy area, or want to write on what it means to be a conservative in 21<sup>st</sup> Century Australia, please contact us to discuss a potential article.

Essays should either be topical, or should show an in-depth knowledge of the history or philosophy of conservative thought and/or policy.

Typical articles will be 1500 - 3000 words in length.

*the conservative* is a not-for-profit publication, so contributions are sought on a pro bono basis.

If you have an idea for an article, please e-mail us at: [mail@conservative.com.au](mailto:mail@conservative.com.au)



Concetta Fierravanti-Wells writes that the history of immigration to Australia is one of seeking and building on shared values.

## IMMIGRATION AND SOCIETY

On 14 June 2005, I gave my maiden speech in the Senate. In the speech I traced my family's journey – from 1953 with the arrival of a young man of 24 years of age to a day when that man, my father, proudly sat in the Senate watching his daughter giving her maiden speech.

It was moving and emotional and yes, there were a few tears. It came from the heart. Since then, I have been overwhelmed by the correspondence I have received, but particularly from those many people in the community who felt empathy and who felt that they too could share my family's journey – whose stories resonated with that of the young man who had travelled from Italy leaving behind everything he knew and loved; who arrived alone at the Sydney Docks; who spoke no English and whose old suitcase carried his dreams and aspirations for a new life in a far away land.

My father's story is like that of millions of other migrants: a story of hard work cutting cane and shifts in the steelworks at Port Kembla; of years of separation from a fiancée until she too travelled to Australia to join him; of saving enough money to put a deposit on a home and working very hard to pay it off; of long hours of overtime to make sure that your children could have a good education.

It is also a story of satisfaction and pride – of looking back over the years and the things that you have achieved; of having watched your family grow and prosper; of watching the birth of your grandchildren; of knowing that all the struggles and sacrifices were worth it.

With hard work, determination, dedication and the will to succeed you can do anything, you can be anyone and you can go anywhere - this is the Australian dream. This ideal of aspiration is what guided my parents and millions of other migrants to Australia – it is what makes this country such a marvellous place and one which we as Australians, are proud to call our home.

As I stood to give my speech, I could have been the daughter of any migrant to Australia. The philosophy of individual effort for just reward is embodied in the stories of millions just like my parents who helped shape the destiny of this great nation. It is also the philosophy behind the great party we as Liberals are privileged to represent.

Today, we talk about aspirational voters. The idea is not new. For many migrants, aspiring to a better life is very reason why they chose to come to Australia. In turn, aspiration drives their children and their children's children.

The success of the current Coalition Government has been its ability to harness this aspiration to find empathy and correlation between the Liberal philosophy and the ideas and beliefs to which contemporary mainstream Australia adheres.

Australia today is a country forged from different cultures. Our millions of migrants have come from the four corners of the globe. Their stories and experiences have contributed towards forging this common set of values and beliefs which form the backbone of mainstream Australian life: a belief in a free and competitive market system; a belief in freedom of choice; of respect for human life; recognition of the rule of law. In short, a belief in a fair go for all.

Irrespective of origin, these values are the prevailing ones of our contemporary and diverse Australian mainstream society.

The promotion of these values and beliefs across the diversity of our contemporary Australian society is vital to our continued social cohesion.

I have lived my life across the diversity that is Australia. In particular, I have spent the past 25 years being involved in many community activities, including in what I term the "broader Australian community". I have observed that whilst cultural diversity has brought us many advantages, there are also challenges.

When my parents first came to this country, they, like many others, experienced prejudice. It was a fact of life. They got on with their lives. Interaction and acceptance in the melting pot overcame prejudices. Today's obsession with political correctness will not assure acceptance – it is a natural process which is achieved over time and by interaction. What people do not understand, they fear and what they fear, they will blame for society's ills. Comprehension and understanding comes with time and interaction.

Today, many who come to this country are assisted by generous settlement services. When my parents arrived there were no such services. Self-sufficiency and employment became the cornerstones on the road to building a better life for yourself and for your children.

And so they worked hard, they assimilated, they shared their culture, their traditions, their food, their experiences, their values and beliefs - they accepted the Australian way of life and in turn, they became accepted as part of the Australian cultural landscape. Their vision was

one of a diverse but united society founded on important values: They found commonality in such important values as support for traditional family values, of a strong work ethic; of learning English as their new language (whilst retaining their original language); of respect for one's elders; of community interaction and voluntary service; and of the need to live openly in peace and harmony. Through this, they and many others helped forge the unique Australian way of life we have today. Indeed, they are today part of the very fabric that constitutes mainstream Australian society.

While some seek to gloss over divisions in our society by affirming a desire for harmonious coexistence and religious tolerance, divisions nonetheless exist. The rifts need to be addressed before they become so deep that our society's very existence is threatened. Australia is a tolerant and compassionate society founded on understanding and respecting social and religious differences. But with the right

to tolerance comes the responsibility of integration in the Australian way of life and a respect for local customs and laws.

Over the years I have observed that whilst many migrants have retained their cultural influences of food, language and

traditions, the majority have become Australians not only in name, but in deeds. They have put their commitment to Australia first. Indeed, this commitment should be the overriding loyalty to the future of this great country.

The vision for a diverse but united Australia remains as valid today as it was for those millions of migrants who in the last century made Australia their home. Our success as a culturally diverse society has come from putting our commitment to Australia first. It is a commitment that in the current social and political climate should be reinforced and actively promoted at all times and throughout all sections of our society. Millions of Australians have worked hard to achieve what we have today. We have so much to be proud of and we do not want this put at risk.

our success as a culturally diverse society has come from putting our commitment to Australia first

#### Bio

Senator Concetta Fierravanti-Wells was elected to the Senate at the 2004 Federal Election. She was previously a solicitor including 16 years' service with the Australian Government Solicitor, as well as Senior Private Secretary to NSW Premier John Fahey.

*“in Cairns and Karratha, State capitals can seem as remote and even more out of touch than Canberra”*

Hon. Tony Abbott MP

*“what we have to do is to shine a torch on Labor’s mismanagement, not give it a political lifeline”*

Senator Santo Santoro

*“the sorry experience of what was passed off as VSU in Victoria should be sufficient to awaken those who argue for a hybrid law”*

Gerry Wheeler