

Australia Fritters Away Its Wealth

By JOHN HYDE

CHRISTCHURCH, New Zealand — Australia's rank in terms of relative wealth is slipping—it was the wealthiest nation in per capita terms around 1900, about third to fifth in the 1950s, and 15th to 20th now. Until recently I could comfort myself with the sentiment expressed by a senior Treasury official in the late 1970s. After I inflicted on him my complaints about economic management, he replied, "If you think we are stuffing it up, John, look across the Tasman."

At the time, economics in New Zealand was suffering the crazies, and I looked upon proposals for closer economic relations between Australia and New Zealand with unmitigated horror. Although I would have liked to enjoy the produce of the efficient New Zealand dairy industry, I feared that the oh-so-gradual, oh-so-tentative steps that we were taking to reduce our trade barriers would be impeded if we entered a common market with the one Western nation which had even higher barriers than our own. In short I was afraid that the tail might wag the dog.

I was wrong. Today, following the establishment of Rogernomics, I am just as afraid that the tail might not be big enough to give the dog the bloody great shaking it needs.

Australians are reforming their economy. Our problem is that our economy is more in need of deregulation and privatization than that of most nations and it is getting less of these good things than are many.

The Australian economy suffers many regulations. Two, however, distinguish it from most other Western nations: These are frontier protection, which is conventional in style but exceptionally high; and an industrial relations system which is like no other.

Predictably, the captains of our protected industries deny that Australian protection is unusual, but before we take them seriously they should explain why Australia has such a low ratio of traded product to total product and why Australia did not share in the postwar world-wide increase in trade.

Employment and trade unions are tightly regulated. In spite of Australia's generally good civil liberties record, laws effectively deny "freedom of association" and "freedom of employment" in many industries. The right to join, form or abstain from the trade union of your choice is not upheld.

Conditions of Employment

Wages, hours of work and other conditions of employment may be determined by a tribunal (pretending to be a court of law) in Melbourne. Needless to say, its decisions, embodied in "awards" with a status between that of government regulation and employment contract, are sometimes less than relevant. Similar tribunals in the state capitals regulate employment in those industries that are not subject to the federal jurisdiction.

Australian unions can only serve their

a borrowed shearing shed, my few remaining sheep were shorn. This was done on a Sunday, which is contrary to the shearers' award. They worked for five two-hour periods, not the statutory four. And they used combs on their shearing handpieces that were wider than the statutory 63 millimeters. Naturally, the proceeds of these crimes were shared between the employer and the workers. Equally naturally, we took care not to tell the shearers' union.

Labor market and industry protection apart, Australian regulation has close parallels in most OECD nations. We suffer state-owned monopolies in posts and telecommunications, railways and ports. The numbers of taxis, television and radio stations, airlines and airliners are all controlled. Foreign-flag vessels are forbidden to ply the Australian coast.

Our agriculture has been as tightly controlled by legislation and by the *nomenklatura* of the monopoly marketing boards. For instance, to be permitted to

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grow sugar in Queensland one must, among other things, be a person of good character—an attribute which on the evidence the Queensland government has singular difficulty in understanding.

Our agriculture is, however, not nearly as heavily subsidized as in the U.S. or the EEC: It forms too large a part of our economy! Instead it tends to carry a protected manufacturing sector.

We suffer significant barriers to entry into professions such as medicine and law, or businesses such as travel agencies or real estate. The trade in hens' eggs is more strictly controlled than the sex trade—and the laws against selling eggs without a license are much more effectively policed. Airliners are prohibited imports—under the same schedule of the Customs Act as heroin: Neither may be imported without the express permission of the government.

Australia being a federation, much economic activity is under the jurisdiction—too often restriction and regulation—of state governments. This fact offers Australians some opportunity for experimentation and example through competition between the states—although it is an opportunity that is receding as the federal

The most important remaining distortion in the capital markets is a bias against saving. This is now generally recognized. The distortion has two apparent sources. One is the means-tested old age pension and other government benefits.

The other cause, which both Treasurers tried and failed to remedy, is more instructive. Australia is the only OECD country without a broad-based consumption tax; instead we rely unusually heavily on direct taxation. We tax income before it can be saved, and then tax the nominal return on the savings. It is not surprising that saving is not favored by Australians. Savings are treated less harshly in countries that use a consumption tax to raise a substantial proportion of revenue.

Mr. Keating and Mr. Howard both tried to get their parties to accept taxation changes like those that have been made in New Zealand. Both were defeated by an unholy alliance of big unions, some big businesses, the welfare lobby and the mad Left.

Deregulation outside the financial sector has not fared so well. The Fraser Liberal government came to office mouthing free-market sentiments (although contaminated with mercantilist populism). But it did remarkably little of value at a time when much of the rest of the world was reforming.

As seems to be often the case, avowed socialists proved, when put to the test, to be the better liberals. The Hawke Labor government's record on deregulation is far better. Phased tariff cuts are intended to reduce manufacturing protection by between a quarter and a third by 1995—hardly dramatic but something. The effective "tax" imposed by protection upon expenditure will by then have been reduced from about 7% to about 4.5% of aggregate consumption expenditure. The cuts have been greater among the more highly protected industries and the disparities in protection levels are expected to reduce by about a third. All sensible moves, but far too slow.

Next year, Labor will greatly ease the regulation of domestic airlines. It has ended the monopoly of domestic wheat sales, and substantially reduced the import protection afforded to sugar and dairy products. The state government is abolishing the Egg Board in New South Wales. Neighboring states will probably feel the competition.

Intellectual Climate

Commonwealth outlays have been reduced from 28% to 24% of GDP. A worthy achievement but, nevertheless, one that is not quite as good as it sounds. It was achieved at a time when economic growth of about 4% per year was financed by borrowing from abroad. We are now a bigger international debtor than most Third World countries, with a credit rating on a par with Spain.

The intellectual climate, however, has changed for the better—very much so. Even here I must admit to flaws. We are

members if they are recognized by these quasi-courts. This procedure of "registration" is operated in such a way as to give unions a monopoly right to represent certain categories of employee. These categories are almost always defined by activity rather than location, employer or any other relevant characteristic.

One example of the way the system operates: During the present strike of airline pilots, the pilots' own union was barred from representing them. The Transport Workers Union wanted to fill this vacuum. Instead of trying to sign up individual pilots, it applied to the Industrial Relations Commission for the right to represent them. So much for civil liberties!

The regulatory processes have of course been captured by the "experts." Fortunately for the Australian economy, people in small businesses have become adept at bending the rules. Take my own case. I am a farmer. We are now sufficiently far removed in time and geography from the events for me to admit my law breaking. During the 1969 drought, in

government takes every opportunity to expand its jurisdiction.

The deregulators' most conspicuous success has been the financial markets. There are, perhaps, lessons here. Financial market deregulation was championed by successive Treasurers, and it was not really opposed by the major interested parties: the banks and the Bank Employees Union. Both proved smart enough to see that financial services were a potential growth industry in which all but the most incompetent could prosper.

Former Liberal Party Treasurer John Howard set up an inquiry into the financial system, which analyzed the situation accurately and recommended appropriately, in readable English. Mr. Howard then began to implement the recommendations. After his government's defeat in 1983, the new Labor Party Treasurer, Paul Keating, continued the job by floating the currency and removing most restrictions on the free movement of capital.

Their failures are as instructive as their successes.

plagued by hypocrisy. National Party MPs want to deregulate the labor market but not the wheat market. Doctors recognize the costs imposed by every union but the Australian Medical Association. The prime minister gives \$43,000,000 of the taxpayer's money to a company in his electorate. Industrial relations commissioners have a lack of respect for freedom of association on a par with the Communist bloc. And much more.

Three years ago our treasurer told the world that Australia was becoming a banana republic. He is, of course, right. But, as I think Adam Smith remarked, "There is a lot of ruin in a country." In Australia, there are a lot of people who want to adopt New-Zealand-style reform, with something better for the labor market. Don't write us off yet.

Mr. Hyde is executive director of the Australian Institute for Public Policy. This article is adapted from a speech he gave to the Mont Pelerin Society meeting in New Zealand.

Surprise-filled Stories, Pathos and Irony

By JACK FLAM

For his 90th birthday, the distinguished English writer V.S. Pritchett has given his readers a thoughtful gift in the form of "A Careless Widow and Other Stories" (Random House, 164 pages, \$16.95). Mr. Pritchett, who might fairly be characterized as England's leading man of letters, has been publishing essays, criticism, novels and short stories since the 1920s.

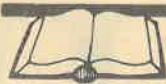
The only thing more impressive than the quantity of his work is its quality. He writes with a remarkable subtlety of observation and tone. Though his manner is restrained and economical, his development of character and use of language are rich and complex. As we read these surprise-filled stories, the sly and lively intelligence behind the narrative is as delightful as the narrative itself.

In the title story, a middle-aged hairdresser named Lionel Frazier is taking his holiday at a remote seaside resort, needing to get "London off his skin." To his horror, he finds that his London life has followed him with a vengeance, in the form of Mrs. Morris, the rather pushy widow who lives in the flat just below his.

Frazier, determined not to let the widow spoil his holiday, becomes obsessed with ways of avoiding her. He spends his days exploring the coast, his evenings dreading the appearance of the widow and her son in the hotel dining room. She was, he reflects, mulling over his past experiences with her, "ordinary life and ordinary life always went too far."

As it turns out, although Mrs. Morris has indeed come to the seaside with "selling and marrying in her eyes," Frazier himself does not figure in her future plans. In fact, when he does see her, she apologizes for having ignored him and invites him to dine the next night with her prospective new husband. As if to emphasize her freedom from Frazier, the Careless Widow has even gone off and had her hair done by someone else, provoking the

hairdresser to make a touching confession. "I am jealous of the man who did it," he tells her, in a mock version of a jealous lover's complaint. "Where did you get it done?" As he feels her slipping



Bookshelf

"A Careless Widow and Other Stories"

by V.S. Pritchett

"After You've Gone"

by Alice Adams

away, Frazier isn't quite sure whether to rejoice or lament.

A similar mixture of pathos and irony runs through most of the other stories in the collection. The surface of everyday life yields profound and moving insights. These are stories so engrossing that when you are done reading them you put the book down with real regret.

Like V.S. Pritchett, Alice Adams works with the surface of everyday life in order to suggest deeper meanings. And in her latest collection of stories, "After You've Gone" (Knopf, 229 pages, \$18.95), she does so with such perceptive attention to the small details of existence that one feels a bit ungrateful for not liking the results more.

Although Ms. Adams writes engagingly, just what she is writing about often seems to get lost in a welter of banal and boring observations. The stories in this collection focus largely on people dealing with emotional loss, and the title story sets the tone for much of the rest of the book.

In fact, an odd sense of entropy runs throughout the collection. Most of the stories don't seem to go anywhere in particular and at the end appear to collapse in on themselves, in epiphanies that don't really illuminate very much. In "On the Road," we follow a woman author named Bren-

dan Hallowell on the cross-country lecture circuit, as she anticipates a sexual adventure with Jack Bishop, a college boyfriend whom she has not seen for many years.

In her hotel suite on the California coast, she "examines a sheaf of note papers on the desk, reads the lists of food and wine available from room service. She does not read the fire instructions: too frightening." So what? we want to ask, crushed by the weight of chatty detail masquerading as profound observation. So when Jack Bishop predictably turns out to be a crashing bore, sending Brendan racing back to Tom in Bethesda, we're not quite sure whether our sympathy should more properly be with the disillusioned Brendan or for ourselves, "who like her have traveled so far for so little."

Mr. Flam writes on the arts for The Wall Street Journal.

THE ASIAN WALL STREET JOURNAL.

Dow Jones Publishing Company (Asia) Inc.

AIA Building, Second Floor
G.P.O. Box 9825 Hong Kong
Telephone 5737121, Telex 83828, FAX 8345291

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Subscriptions and Address Changes should be sent to Circulation Department, The Asian Wall Street Journal, G.P.O. Box 9825, Hong Kong, giving old and new address.

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