

## RE-BUILDING AUSTRALIA - A START

**Background** - Around one million Australians are unemployed. Of these, nearly 400,000 are long term unemployed. In addition some 600,00 - 800,000 are under-employed. The Current Account Deficit continues to average more than \$1 billion net and certain to rise. Business Investment has been in a declining mode for four years.

One in three first marriages and two out of five second marriages end in divorce. Around 750,000 children live in one parent households and about 350,000 households have no member of the family in the paid workforce.

Great social change has flowed from The Family Law Act 1975, from unfair family taxation and inequitable child care policies and the rising participation rate of married women in the paid workforce.

Social Welfare costs are a staggering \$41.6 billion (1993/94 Budget). Around \$3 billion of this is allocated to family breakdown, Despite this huge welfare spending poverty is growing.

Unless these problems are tackled now and solutions found quickly, the future consequences for our society will be horrendous. Tragically the Federal Government seems unable to provide the solutions. The 1993/94 Budget assumed that unemployment will continue at 10.75% and proposed regressive excise and sales tax measures which will tend to widen the gap between rich and poor.

Australia's deep seated economic difficulties and social problems have developed gradually over a period of more than 20 years. As a nation we have spent more than we have earned and have borrowed the difference from the savings of other nations. Two decades of high inflation and high interest rates have directed investment into non productive areas. Trade and Tariff policies based on the myth of a 'level playing field' have severely damaged manufacturing industries.

What can be done? So many issues need to be addressed and corrected that to attempt to tackle them all at once would be too complex, costly and unacceptably destabilising. Australians have been engulfed in massive change over the past 20 years. There is a limit to the amount of change with which a nation can cope effectively at any one time.

A small number of critical policy changes should be made now with the aim of turning Australia in the direction of economic recovery and social consolidation. This will provide time to address progressively the remaining problems

### THE CRITICAL FIRST PRIORITIES FOR POLICY CHANGES ARE:

- The Family
- Unemployment

- Industrial Relations
- Foreign Debt and Current Account Deficit
- National Saving and Superannuation
- Trade and Industry

**THE FAMILY is the cornerstone of our society. Government policies should be directed towards promoting, supporting, maintaining and protecting the intact family.**

A number of surveys' consistently show that a high majority of married women, who join the paid workforce, do so through financial pressure and the need for a second income because of falling standards of living; that 70-80% of those with young children would prefer to be at home caring for their children; that both parents working increases pressures on the family unit; that ahead of other ambitions, happy and successful marriage is most desirable and that divorce is too easy. In addition, study of research findings<sup>2</sup> on family breakdown is enormous, not only in taxpayers' dollars, estimated at \$3 billion per year, but also in increased juvenile delinquency and adult criminality, homelessness, poverty, drug abuse, welfare dependancy and the sexual precociousness and under-achievement educationally and socially of some o of the affected children.

In the light of these research and survey findings it is extraordinary that the Federal Government:

- VII. Doesn't provide tax incentives to increase household savings (and in the process increase national savings);
- VIII. Taxes single income two parent families more heavily than equivalent two income families with the same income;<sup>3</sup>
- IX. Provides child care benefits, around \$600 m this year, to mainly middle class, often two income families but provides nothing for mothers who care for their children at home.<sup>4</sup>
- X. Facilitates family breakdown through a Family Law Act which allows no fault divorce on demand to one partner irrespective of the wishes of the other.

**THE FOLLOWING POLICY CHANGES SHOULD BE MADE:**

- ✍ Introduce tax exempt savings accounts to encourage thrift and increase household savings.
- ✍ Replace the Dependent Spouse Rebate (DSR) with a Home Child Care Allowance (HCCA), of at least \$100 per week, to be paid to the spouse who looks after dependent children. In addition restore the real value of Family Allowance. Research analysis suggests that approximately 200,000 jobs can be created from these measures, at a net cost of \$2 billion per year as mothers (and some fathers) choose to leave the workforce.<sup>5</sup>

Note: The Federal Government intends to replace the DSR with a cash allowance of \$30 per week

in September 1994. Whilst this is a move in the right direction, the amount is insufficient to give mothers the freedom to choose between work or home, A Home Child Care Allowance should be seen as part of a just family taxation/income system not as a welfare measure.

✍ Abolish all child care expenditure except (i) for sole parents with school aged children, where an income test including income from the other parent is still living, demonstrates a need and (ii) for parents of children with special needs on a means tested basis. The funds saved should be redirected to a HCCA.

✍ **Family Law** - Take steps to build a legal framework which supports marriage as an institution and a way of life distinguishable from male-female cohabitation and other forms of domestic relationship.

This involves the recognition of marriage as a special contractual relationship characterised by the voluntary exchange of vows.

To support this concept of marriage whilst at the same time allowing divorce, by consensus or on the petition of one partner, amendments will be needed to the Family Law Act to provide sanctions for breach of the contract by punishing marital misconduct, if proven, through judicial determination of compensation in settling the terms of the divorce.

The adoption of these clear principles in relation to the concept of marriage, divorce and marital misconduct will work towards strengthening the institution of marriage and remedying the injustices and uncertainty arising from the Family Law Act 1975 and the undue exercise of judicial discretion.<sup>6</sup>

**UNEMPLOYMENT** - is voted as the most important issue facing Australia, today.<sup>7</sup> Of particular concern is the hard core long term unemployment (LTU), those who have been unemployed for twelve months or more, The number of LTU is tipped to continue to rise and perhaps peak at 450,000 in late 1994.<sup>8</sup>

Professor Barry Hughes in a recent speech to a Metal Trades Industry Association seminar estimated that the LTU were already costing the Australian economy \$1 billion per year in lost taxes, social security benefits and labour market programmes.<sup>9</sup> The cost could be immeasurably greater in the future as the existence of a large number of long term unemployed for any length of time has the potential to develop into a permanent underclass bringing serious problems for the whole of society.

Broadly, the two solutions frequently offered to reduce unemployment and, in the process, reduce long term unemployment are Labour Market Programmes (LMPs), on which the Federal Government is spending about \$1.1 billion annually and real wage flexibility (wages).

Professor Judith Sloan, Director, National Institute of Labour Studies at the Flinders University of South Australia and one of Australia's most respected labour market commentators, has recently argued that LMPs don't work in the sense that they don't reduce unemployment overall.<sup>10</sup>

Professor Sloan goes on to say "Unfortunately, it all comes down to simple arithmetic. Unless the

number of jobs rises by at least 1.5 to 2 per cent, the overall rate of unemployment will not fall. Employment growth of this magnitude will need to be underpinned by GDP growth rates of at least 3.5 to 4 per cent per year.... to reduce unemployment we must rely on very high rates of growth of private sector employment in the 1990s, underpinned by high rates of investment.....ultimately, the only means of achieving a sustainable solution to unemployment is to have consistently high rates of job growth in the private sector.”

**Private Sector Investment required to provide high rates of private sector job growth has been in a declining trend for four years.** Two signals, however, are worth noting.

Firstly, as big businesses strive to become more competitive but are beset with union, wage and workplace rigidities, they undertake restructuring and outsourcing and in the process shed labour. The corollary is that small businesses provide the outsourced services and increase employment!

Secondly, a considerable number of small and medium sized manufacturing businesses are succeeding in export markets. In a study of 700 such businesses, which last year exported products worth \$8 billion, McKinsey and Co identified a number of hurdles including difficulties in gaining access to capital and recommended: the need for a strategic vision for Australia; the maintenance of a competitive tax and regulation environment; identification of non-tariff barriers to export; streamlining of export assistance schemes and a “Sell Australia” campaign.<sup>12</sup>

**Clearly, to achieve the high levels of investment needed to underpin consistently high rates of private sector job growth small and medium sized businesses must be encouraged.** This can be done by:

**implementing the McKinsey and Co Report recommendations; introducing fully flexible plant and equipment depreciation; facilitating access to low cost capital** (see below, National Savings and Superannuation);  
**reducing government cost imposts, particularly for export and import replacement manufacturing businesses;**  
**eliminating union rorts.**

In the meantime, whilst these measures are being implemented, those LMPs which encourage employers to employ and train or retrain the unemployed, particularly the LTU, should be continued and carefully monitored.

It must be recognised that even these reforms will not cure unemployment quickly. **The establishment of a Land and Water Resources Reconstruction Corps** could give many unemployed an opportunity to contribute to the national interest. Unemployed benefits, could contribute their skills or learn skills by being part of a service corps which could complement the work of the Landcare Programme in restoring Australia’s degraded agricultural and forestry land and water courses.

**INDUSTRIAL RELATIONS** - Australia’s centralised adversarial industrial relations system is a monumental stumbling block to good employment practice. What is needed is a non-adversarial bargaining framework in which employers, employees and unions, where they are involved, work

together to achieve mutually beneficial objectives. This framework should include a compulsory dispute resolution mechanism which will obviate the need for strikes, bans and lock-outs and will permit those harmed by industrial action, taken in defiance of these procedures, to seek redress from the parties involved.

The industrial relations package, recently negotiated with the ACTU by Minister Brereton, should be opposed vigorously. It doesn't reduce labour market rigidity and introduces barriers to negotiations between employers and employees and weakens the ability of business to seek redress from unions engaging in unfair secondary boycott activity.

**FOREIGN DEBIT AND THE CURRENT ACCOUNT DEFICIT** - The net Foreign Debt rose to 178 billion, 43.8% of GDP, at 30 September 1993.

This is a serious problem which threatens our sovereignty as economic decisions are dictated by international interest rate movements. The debt and deficit problems have not been caused by a poor export trading performance but by a lack of National Savings. As a nation we borrow each month to meet the interest on the foreign debt; this borrowing increases the deficit and the debt.

The consequences are that Australia's interest rates are higher than they would otherwise need to be. These high real interest rates make Australian business less internationally competitive and act as a disincentive to business investment. If official interest rates were lowered to encourage much needed business investment, to underpin private sector job growth, Australia's currency would collapse.

A three pronged approach is required: incentives to increase national savings; enhanced export and import replacement performance and policies to discourage and ultimately eliminate foreign borrowings.

**NATIONAL SAVINGS AND SUPERANNUATION** - Compulsory Superannuation could provide the funds for the high rates of business investment, needed to produce the consistently high rates of private sector job growth required to reduce unemployment.

However, under current arrangements, these funds do not have to be invested in Australia to provide Australian jobs. At 30 Sept. 1993, \$28.9 billion of Australian super funds, an increase of \$7.4 billion for the year, were invested off-shore. This provides jobs in other countries not in Australia.

Moreover, the unwieldy administrative structures need to be addressed. The Sixth Report of the Senate Committee on Superannuation, released 17 June 1993, was highly critical of the excessive commissions and charges which eat into workers' contributions. Administration of compulsory super is a nightmare for business. The following reforms should be implemented:

**Firstly all superannuation funds should be invested in Australia to provide private sector jobs in Australia.**

**Secondly, Compulsory Superannuation arrangements should be amended so that the funds:**

**are contributed jointly by employer and employee and are invested safely in fully secured low cost loans to small and medium sized export and import replacement manufacturing businesses.** This can be done quite simply in a way which ensures that the returns are tax free, are positive and higher than inflation, the funds are safe and will provide this business sector with low cost loans without inducing a collapse of the currency.

The fact that low cost loans would be available to properly capitalised, well-managed businesses should give a boost to the development of much needed venture capital funds in Australia.

**It must be stressed that these arrangements would be set up in such a way as to exclude government projects, housing and other social objectives and government interference.**

To encourage thrift and increase household savings, as part of a national savings drive, tax exempt saving accounts should be introduced.

**TRADE AND INDUSTRY** - The policy of the Federal Labor Government and of the Opposition has been to progressively reduce tariffs. It is foolish however to proceed further down the path of trade liberalisation without first reforming industrial relations, workplace practices, wages, transport and communications. To do so will simply encourage further the flow of Australian investment capital to 'low cost' countries in the region whilst, at the same time, allowing the product of the investment and other products to freely enter Australia as tariffs are reduced.

Lower tariffs are an important long term goal but the objective of Trade and Industry policy must always be to invigorate and safeguard our industries. Dr Brian Lloyd, President of the Institute of Engineers Australia, has argued these concepts very well<sup>13</sup>. Dr Lloyds said "When I speak of invigorating industry, I mean nurturing it, helping it grow, and inspiring achievement and investment. The idea includes nurturing of knowledge through public and private investment in education at all levels, and investment in applied research, development and commercialisation. It might also include various forms of tax breaks and incentives to promote such investment. It requires policy certainty for long term confidence.

Safeguarding an industry means pride and appreciation for positive achievement, benign watchfulness and shielding against damage. Safeguarding might have to include actions to exclude or restrict unnecessary imports, export enhancement assistance, active enforcement of anti-dumping and 'buy Australian' regulations and tax breaks for Australian content. Some already occur but the commitment needs expression in a national vision."

**The kind of long term strategic or national vision espoused by McKinsey and Co and Dr Lloyd is critical to Australia's future. An important element of such a vision must be an unequivocal commitment to low inflation, around 2% per annum maximum. Failure to control inflation will put long term recovery in jeopardy.**

References:

<sup>1</sup> New Idea, April 1993; Real life, Channel 7, 12 July 1993; Family Circle, May 1991; ANU Research School of Sciences 1989; Clemenger Reark Study 1984.

<sup>2</sup> Zinsmeister K, IPA Review, Vol 46 No 1 1993; Tapper A, Reform and Recovery, Chapter 8,

IPA March 1993; The Economist, Broken Homes, Poorer Country, The Australian, 23 March 1993; Eastman M, Family : The Vital Factor, APC Review 2-1993.

<sup>3</sup> Tapper A, The Family in the Welfare State, Allen & Unwin, 1990; Lindsey F, Taxation, Welfare and the Family, FACTS August 1992;

<sup>4</sup> Lindsey F, The Financial Cost of Child Care, FACTS Dec. 1992;

<sup>5</sup> Lindsey F, *ibid* - reference <sup>3</sup>.

<sup>6</sup> Maley Barry, Marriage, Divorce and Family Justice, CIS Policy Monograph 25, provides substantial elaboration for this view.

<sup>7</sup> NEWSPOLL Opinion Surveys, February and November 1993.

<sup>8</sup> Sloan Professor J, Employment Policies Don't Work, The Bert Kelly Lectures, Brisbane September 1993.

<sup>9</sup> The Australian, 26 October 1993.

<sup>10</sup> Sloan Professor J, *ibid*.

<sup>11</sup> Bureau of Industry Economics - Australian Industry Trends Study.

<sup>12</sup> The Australian, 16 June 1993.

<sup>13</sup> Engineering Times, No 5, August 1993.