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‘Expanding opportunity or the welfare state?’

Address to the Centre for Independent Studies Policy Makers Forum

**NSW Parliamentary Theatre
State Parliament
Macquarie St, Sydney**

5 October 2006

Telling the Labor story

As the alternative government of Australia, the Labor opposition has a responsibility to put a proposition to the people as to how we would make their lives better and how we would make Australia a better country.

Under Kim Beazley’s leadership we are taking that responsibility seriously. But we have a distance yet to travel and some time left to complete our journey. Along the journey and within the available time, Labor will need to convey a political philosophy built on modern Labor values.

A progressive political party can never be elected on a platform of promising to be better administrators than the conservatives. By and large, claim and counter-claim as to which party is more competent as an administrator is the terrain on which state elections are fought these days.

As David McKnight observes:

*“The problems of the Left reside at the level of ideas and philosophy. Tinkering with policies, presentation and leadership is not enough”.*¹

In the absence of a unifying philosophy, Labor in the past has sought to cobble together a rainbow alliance of special interest groups and stitch them onto a base of unionised workers. Such alliances of convenience, sharing neither common values nor a common philosophy, are inherently unstable, always likely to fray and tear at the seams, all the time appearing an odd outfit to everyday Australians.

¹ McKnight (2005, p. 15).

Since his election to the leadership in early 2005, Kim Beazley has encouraged new thinking. And so I stand here, taking part in the battle of ideas, pushing the debate, pushing values and policies from the reformist mainstream – arguing for the best Labor can be. This we owe to our predecessors, to our successors and above all to every Australian whose life chances depend on a getting a decent opportunity for self-improvement.

Labor has won federal government from opposition only twice in the last 75 years – under Whitlam in 1972 and Hawke in 1983. On both occasions the Labor Party had put to the Australian people a comprehensive program of ideas and policies built on Labor values. Successfully persuading the Australian people to change the national government in 2007 requires Labor to embrace a unifying, value-laden philosophy that differs in meaningful ways from the Coalition's. Then, based on that unifying philosophy, an alternative plan for Australia can be developed and presented to the Australian people for their judgement on election day.

In telling the Labor story of a better plan for Australia, we should set our policy compass according to our own philosophy and not simply react to the Coalition's agenda. We should not seek differentiation from the Coalition for the sake of it. If the Coalition is pursuing a policy that is in the national interest, Labor should not oppose it just to be different. In so many ways the Coalition is failing to act in the national interest, or is behaving unethically or unfairly. Labor does not need to go out of its way to create artificial opportunities for differentiation when so many natural opportunities exist.

Nor should we try to convince people that the country is in a terrible mess and that their lives are a misery. To do so would create the impression that a Labor government would turn the country upside down, threatening their prosperity and any economic security they might enjoy. Labor's program should be one of reasoned, rational reform.

The Howard years

A reasoned critique of the Howard years is essential in making the case for a change of government. To be credible, the critique should be sensible, avoiding the wild exaggeration that, as my colleague Lindsay Tanner has observed, tends to characterise political debate in Australia.

When the government of Australia changes the country changes.² During the last decade our country has changed, in some ways for the better, in others for the worse. Some changes have been instigated or encouraged by the Howard government, others have occurred without the government's involvement and still others have been claimed by the Howard government as its own good work but are mostly the outcome of policies implemented by preceding governments.

² This statement is attributed to Paul Keating. He has been proved right.

Gaining prosperity

Our nation has become more prosperous over the last decade. Average real wages have risen by more than 15 per cent. Unemployment is at a 30-year low. Inflation, too, has reached historic lows. Rising prosperity, low inflation and low unemployment are good for Australia.

There is now a general consensus that the economic reform program initiated by the Hawke Labor government and extended in places by the Howard government has been responsible for Australia's modern prosperity.³

The real wage growth of the last decade has been made possible by the wage restraint practised under the previous Labor government. Wage moderation was essential to lifting the competitiveness of the Australian economy as Labor re-oriented Australian industry away from a small, protected domestic market to tough export markets. Wage moderation was achieved through the Prices and Incomes Accord with the trade union movement. Increases in money wages were foregone in favour of improvements in the social wage – the introduction of Medicare, affordable child care, improved access to education, a needs-based system of family payments and superannuation for working Australians.

Instead of demonising the trade union movement, the Howard government should thank it for breaking the debilitating wage-price spiral of the Fraser-Howard years that by the early 1980s had caused wages to grow by 14 per cent a year, inflation and unemployment to exceed 10 per cent and 90-day bank bill rates to hit an Australian record of 22 per cent.

Sustaining prosperity

Today's productivity growth is tomorrow's prosperity. Yet the Coalition government has failed to secure the next round of productivity growth. Following a record-breaking decade built on the reform program begun in the 1980s, productivity growth slipped into reverse in 2004 and had barely recovered by 2006. The OECD has observed that:

*“Following a surge in the second half of the 1990s, productivity growth has reverted to its long-run average”.*⁴

The absence of a new productivity-raising reform agenda, combined with the ageing of the population, is set to impose on Australia from the 2010s onwards the slowest rate of income growth per person since the decade of the Great Depression.⁵

Instead of investing in and implementing a new productivity-raising reform program based on education, innovation and creativity, the government has surfed the productivity boom instigated by the previous Labor government. When the

³ See, for example, Productivity Commission (2003, p. 6), (2004, pp. 35, 41); OECD (2003, p. 90); OECD (2004b, p. 82); IMF (2003, p. 14); Henry (2004, pp. 2-3).

⁴ OECD (2006b, p. 8). See also Barry Hughes, 'Productivity miracle is over', *The Australian Financial Review*, 27 September 2006, p. 58.

⁵ Commonwealth Treasury (2002, p. 30). For comparisons with earlier decades see Eslake (2003, p. 8).

productivity boom had petered out by 2004, the government cashed in on the resources boom created by the best world mineral prices in more than 30 years.

The Howard government cut TAFE funding in 1997 and now, at a time of acute skill shortages, funding is lower in real terms than in the last year of the previous Labor government.

All the growth in undergraduate enrolments at our universities since 1996 has been in full fee-paying foreign and Australian students. Enrolments by Australian undergraduate students fell in 2004 and 2005 for the first time in half a century and the Howard government predicts further declines over the next 10 years.⁶

Australia was already the world's fifth most expensive place to study for a university degree before the big fee increases of 2005.⁷ The OECD has identified Australia as one of the very few developed countries in which increases in private spending on higher education have substituted for rather than complemented increases in public funding.⁸ Since 1995, Australian government spending on tertiary education has declined by 7 per cent, while in other OECD countries it has increased on average by 48 per cent.⁹

Australian manufacturing under siege

Nowhere is this failure to invest in the future more evident than in Australia's exports of sophisticated manufactured goods. Every week Australia is losing more than 1100 highly-skilled manufacturing jobs, many of them to the giant factories of China.

Despite the best mineral prices in more than three decades, Australia has put in its worst export performance since the Second World War. Among resource-rich countries Australia is alone in recording 50 successive monthly trade deficits – with no end in sight. Australia's woeful export performance has been caused overwhelmingly by a slump in production and exports of high-value manufactured goods and services. In the 10 years before the change of government in 1996 the volume of Australian sophisticated manufactured exports grew on average by 11 per cent a year; in the 10 years since 1996 it has grown by just 1 per cent a year.

Rising debt

Australia's poor export performance is contributing each month to large current account deficits that during the mid-2000s passed 7 per cent of GDP. These persistently large current account deficits have added to a massive foreign debt of almost \$500 billion – a huge increase in just 10 years on the 1995 level of \$180 billion when John Howard promised to follow policies that would bring foreign debt down.

⁶ See education minister's comments in 'Unis to shrink in 15 years', *The Australian*, 15 September 2005, p. 5.

⁷ Educational Policy Institute (2005, p. 2).

⁸ OECD (2005, p. 193); OECD (2006c, p. 217).

⁹ OECD (2006c, p. 206).

It is not especially the size of foreign debt that matters but its causes and consequences. As identified by Treasury, much of the build-up in foreign debt has been to fund a housing and consumption boom,¹⁰ a boom that has been actively fuelled by the policies of the Howard government. The unsustainability of these policies and practices is manifesting itself in mortgage repayments taking a higher share of incomes than during the high interest rate period of the late 1980s and in Australia interest rates rising to the highest levels in the developed world.

A fairer Australia?

The distribution of income has changed very little since the election of the Howard government. Mr Howard has claimed that analysis conducted by the National Centre for Economic Modelling (NATSEM) demonstrates that:

*“Largely because of the introduction of the Family Tax Benefit system, the position of low and middle income families has not only been maintained but has significantly improved over the last eight or nine years”.*¹¹

In fact, NATSEM found that in the seven years to 2004-05, average real incomes of the bottom 20 per cent of families with children rose at around the same rate as median family incomes, suggesting that:

*“... increases in family payments and changes in tax thresholds have benefited less needy Australian families as much or more than those in the poorest circumstances”.*¹²

The NATSEM study further concludes that:

*“... increases in average income for the bottom quintile do not necessarily translate into improved living standards for this group, especially in light of the increases in indirect taxes associated with the introduction of the Goods and Services Tax (GST) in July 2000”.*¹³

The study points out that since low-income families usually spend all of their income, or more than all of it by running down savings, price increases caused by the GST are likely to have had a greater impact on those families than on better-off families.¹⁴

It is true that the Australian tax and welfare system is effective in redistributing income from the more affluent to the less well-off, but it is no more effective at doing this than it was when the Howard government came to office in 1996.

¹⁰ See Parkinson (2004).

¹¹ Howard (2005, p. 5). The Prime Minister similarly told parliament on 23 May 2005 that the director of NATSEM had asserted that “under this government, the position of low-income families, especially single-income families and especially sole parents, has improved enormously ...”.

¹² McNamara, Lloyd, Toohey and Harding (2004, p. 30).

¹³ McNamara, Lloyd, Toohey and Harding (2004, p. 30).

¹⁴ McNamara, Lloyd, Toohey and Harding (2004, p. 30).

Welfare for the wealthy

At a time when welfare dependency should have fallen with declining unemployment, the Howard government has extended welfare payments to the very wealthy. In just 10 years the Howard government has increased the size of the welfare state by half in real terms – and yet expects poor single mothers to work for as little as \$3 an hour after taking account of benefits withdrawn, taxes paid, and travel and work costs.¹⁵

Labor introduced a family payments system for lower and middle income earners. Labor continues to support family payments for these families. But a millionaire couple is eligible for family payments of more than \$3,000 a year if the mother agrees to stay at home, while a couple with a combined income of \$52,000 is eligible for little more than half that amount. A two-income couple both earning the average wage receives nothing. In a giant recycling exercise, almost half the taxes paid by the top 40 per cent of households are returned to them as government benefits.¹⁶

An incentive-crushing tax and welfare system

The Howard government has inflicted an incentive-crushing tax and welfare system on honest working Australians and on those wanting to move from welfare to work. It has become the highest-taxing government in Australia's history, increasing taxes to pay for its extravagant spending programs designed to appeal to favoured constituencies, including the welfare that it has extended to well-off Australians.

Australia has an income tax base riddled with 270 special tax concessions. It took 60 years to create the first 170 concessions but just 10 years of Coalition rule to create the next 100. The government has opened up new avoidance opportunities as lawyers and accountants seek to qualify their clients for these special new tax breaks by exploiting the myriad loopholes in the Income Tax Act.

High income tax rates are boosting the rewards from avoidance and evasion. Evasion is rampant; the same moral attitudes to the payment of tax that allowed the notorious Bottom of the Harbour schemes to flourish in the late 1970s and early 1980s under John Howard's treasurership are now endemic.

Over the last four budgets the government has received a windfall of \$263 billion and has spent more than 90 per cent of it, mostly on consumption and income tax cuts.¹⁷ Precious little of the windfall has been spent on investing in the future and the half of the windfall that has been spent on tax cuts and family payments has bought virtually no reform. During that period the bottom rate has been lowered from 17 cents to 15 cents, the second top rate from 42 cents to 40 cents and the top rate from 47 cents to 45 cents. In preference to improving incentives by cutting tax rates the government has raised tax thresholds to hand back some of the proceeds of bracket creep, only to allow bracket creep to resume its revenue-raising work in subsequent years.

¹⁵ For calculations of returns for single mothers from working see Harding, Vu, Percival and Beer (2005, p. 204).

¹⁶ Moore (2005, p. 21).

¹⁷ See Eslake (2006, charts 45 & 46).

The socially excluded

While more of the Commonwealth budget is being set aside for better-off Australians, social exclusion and disadvantage for Australia's most vulnerable – our children – is little relieved. Around 730,000 children are living in households where no adult is in work, down only marginally on the 797,000 a decade ago.¹⁸ Last year, 46,000 cases of child abuse were substantiated – a doubling of confirmed cases in just five years.¹⁹ Indigenous children are much more likely to suffer from maltreatment than non-indigenous children; in some states between five and 10 times more likely.²⁰

A major source of poverty in Australia is the breakdown of families when couples separate and divorce. Poverty is rife among single parent families where the mother is deserted and left to fend for herself and her children.²¹ Around 40 per cent of all confirmed instances of child abuse are against the children of single mothers.²²

Our education system is entrenching disadvantage

While Australian students on average perform well in international tests, a disturbingly large proportion of our students do very badly.²³ More than 40 per cent of Australian students from low socioeconomic backgrounds drop out of high school and more than half of indigenous students drop out early. This compares with only 12 per cent of students from high socioeconomic backgrounds. The average university entry score for students from disadvantaged backgrounds is 66 compared with 80 for more privileged students.²⁴

Poor performance starts with early childhood disadvantage. Somewhere between 60,000 and 105,000 four year-old Australian children do not attend preschool.²⁵ Most of these children are disadvantaged. Basic reading, writing and arithmetic among Australian students has not improved since the mid-1980s.²⁶ Poor literacy and numeracy among disadvantaged children is contributing to an astonishing one in five adult Australians being functionally illiterate.²⁷

The OECD finds that Australia's level of education attainment:

¹⁸ ABS (2006).

¹⁹ Australian Institute of Health and Welfare (2006, pp. 17-18). These increases partly reflect improved procedures for notification and substantiation but they also raise serious concerns about the prevalence of child abuse.

²⁰ Australian Institute of Health and Welfare (2006, p. 22).

²¹ See, for example, Harding, Vu, Percival and Beer (2005, p. 196).

²² The proportion varies from 34 per cent in the Northern Territory to 46 per cent in Victoria. See Australian Institute of Health and Welfare (2006, p. 26).

²³ OECD (2004, p. 171); OECD (2005, p. 101); OECD (2006a, p. 158).

²⁴ Allen Consulting Group (2004, pp. 80-81).

²⁵ Kronemann (2005, p. 7) provides an estimate of almost 60,000. The Australian Institute of Health and Welfare (2005, p. 13) estimates that 41 per cent of four year-olds did not attend preschool in 2002, though it points out that a proportion of these attended child care that offered some form of preschool education. In 2005 there were 257,000 four year-old children in Australia, 41 per cent of which is 205,000.

²⁶ Leigh (2005, pp. 2-3).

²⁷ OECD (2000).

*“... compares poorly with the United States and other G7 countries, particularly in terms of the proportion of the population that has not attained at least upper secondary education”.*²⁸

As the socially disadvantaged swell Australia’s prisons

Everyone is bearing the cost of social disadvantage. The prison population has passed 25,000 - two and a half times bigger than it was 20 years ago. Just accommodating the prison population costs taxpayers more than \$2 billion a year. But the biggest costs are not so easily measured.

Tomorrow’s prisoners are today’s abused, neglected, poorly-educated children. Almost 40 per cent of male prisoners and 30 per cent of female prisoners in NSW were expelled from school. Ninety per cent of young people in custody in NSW did not complete Year 9 and around 60 per cent of adult prisoners did not complete Year 10. Sixty per cent of adult prisoners in NSW are not functionally literate or numerate.²⁹ Sixty per cent of women prisoners in NSW and almost 40 per cent of male prisoners were sexually abused before the age of 16.³⁰

Whatever its other benefits, a policy of de-institutionalising people suffering from mental illness has been a major cause of both increasing homelessness and the rising prison population.

And the health of disadvantaged Australians remains poor

We know that poor basic education leads to poor health. While the average life expectancy of Australians has risen by three years over the last decade, life expectancy among indigenous Australians is a staggering 17 years lower.³¹ Infant mortality among indigenous children is more than double that of non-indigenous Australians.³²

Australians living in the most disadvantaged communities suffer potentially avoidable premature death rates more than 50 per cent higher than those in the most affluent areas. Death rates from cardiovascular disease and strokes are 60-90 per cent higher in the most disadvantaged communities than in the most affluent communities.³³ The rate of hospitalisation is 50 per cent higher in the most disadvantaged areas.³⁴

A diet of sugary drinks and fatty foods, too much television and a lack of physical activity are making one and a half million Australian children overweight or obese,³⁵

²⁸ OECD (2006b, p. 57).

²⁹ See Law and Justice Foundation of New South Wales (2005, p. 2).

³⁰ Butler and Milner (2003).

³¹ Indigenous life expectancy estimates from ABS/Australian Institute of Health and Welfare (2005, p. 148).

³² ABS (2002, p. 23).

³³ Australian Institute of Health and Welfare (2006b, p. 1).

³⁴ Gillard (2006, p. 4).

³⁵ National Obesity Taskforce (2003).

a forerunner to diabetes the prevalence of which has more than doubled since the early 1980s.³⁶

The working poor are being made even more vulnerable

Though the Howard government initially embraced enterprise bargaining as introduced by the Keating government, its recent *WorkChoices* legislation effectively removes any remaining choice of employees to bargain collectively by giving veto rights to employers. Long-time advocates of labour market deregulation, like Professor Mark Wooden, have concluded that the government's agenda goes too far:

*“But what if AWAs are not desired by workers? Currently, there do not appear to be measures that ensure that workers have the ability to choose between individual contracts and collective agreements. If the aim is to provide employees with real choices, then I am on Greg Combet's side – the right to bargain collectively needs to be protected. Further, the government should have a vested interest in ensuring collective bargaining continues to flourish if it believes, as it has stated so often in the past, that enterprise bargaining has been fundamental to the productivity gains of the 1990s”.*³⁷ⁱ

The government has established its own hand-picked body to slow down any growth in the minimum wage. But doing so, without major changes to the tax and welfare systems, will only reduce the incentive to move from welfare to work by reducing the rewards from working.³⁸

The sense of community is breaking down

Indeed, the whole sense of community, of mateship that has so defined what it is to be Australian, is breaking down. John Howard professes support for mateship, giving the impression that he supports the extension of relationships beyond the family and into society. But he has told the Australian people for 10 years that they have two responsibilities – to family and country – but nothing in between. You don't hear John Howard talking about society or community. He has embraced Thatcherism – the ultra-conservative view that there is no such thing as society.

The breakdown in social stability did not start in the Howard era but it has gotten worse. The Howard government's political strategy has been to push hot emotional buttons around tribalism and ultra-nationalism: loyalty to the group secures protection against local non-kin and swarthy foreigners. This strategy was expressed most virulently in the Prime Minister's denigration of asylum seekers, through his false claims that they threw their children overboard:

“... the behaviour of a number of these people, particularly those involved in throwing their children overboard. I mean, I can't imagine how a genuine

³⁶ Australian Institute of Health and Welfare (2004, p 85).

³⁷ Wooden (2005, p. 16).

³⁸ Wooden (2006, p. 88).

refugee would ever do that ... I don't want people of that type in Australia, I really don't".³⁹

These statements and the belief system underlying them helped instil in the immigration department an authoritarianism and a culture of cover-up which has resulted not only in the maltreatment of asylum seekers but the wrongful detention and deportation of Australian citizens.

Australia the aggressor increases the risk of terrorism

A further hostile expression of the Howard political philosophy of tribalism was Australia's participation in the unprovoked invasion of another country – the first time in our history. Pretexts of faked links between the Iraqi leadership and Al Qaida and purported possession of weapons of mass destruction were used in defiance of the United Nations Charter. At the same time, the government turned a blind eye to the \$300 million financing by the Australian Wheat Board of Saddam Hussein's military operations and subsequent insurgency.

Saddam Hussein was indeed a tyrant and a mass murderer. So too are the leaders of several other countries. As an aggressor in attacking another country, Australia is now at greater risk of a terrorist attack which, in turn, has created the environment for ever-stronger counter-terrorism laws, including sedition laws that can be used against the media and Australian citizens who have done nothing wrong.

No real progress on environmental repair

A decade of environmental repair and World Heritage listings of Australian natural wonders by the previous Labor government has been followed by a decade of environmental indifference and neglect. It is hard to identify any major environmental achievement of the Howard government. Little progress has been made in restoring the Murray-Darling Basin to health. No national plan has been devised to take the population pressure off congested cities and sensitive coastal environments by boosting inland regional areas.

Are we happier?

Australians overall are happier than the citizens of most other countries. Few Australians would disagree with the statement that we live in the best country on earth. However, the measured happiness of Australians did not increase in the first five years of this decade⁴⁰ and Australians living in the less affluent suburbs of our congested cities are not as happy as those living in regional centres.⁴¹ An estimated 930,000 adult Australians experience depression each year⁴² and, when young people are added to the total, depression afflicts more than one million Australians each year.

³⁹ John Howard, Radio 3LO, 9 October 2001.

⁴⁰ Cummins (2006, p. 4).

⁴¹ Cummins et al (2005, p. 2).

⁴² Assuming the prevalence rate for depression is the same as in 1997, when it was 6 per cent. See Commonwealth Department of Health and Aged Care (2000, pp. 4-5). In reality, the incidence of depression has probably risen.

For better and for worse

Bringing together the elements of this critique of the Howard years, Australia has indisputably become more prosperous and the overwhelming majority of Australians are financially better off than they were a decade ago. While the Howard government can take some of the credit for this, the foundations for prosperity were laid by the economic reform program of the previous Labor government much, but by no means all of which, was supported by the Liberal and National parties when in opposition.⁴³

The last decade will go down in Australia's history as an unprecedented era of wasted opportunity. Instead of using the proceeds of the productivity boom and the resources boom to expand opportunity for all Australians the Howard government has expanded the welfare state.

During a period during which welfare dependency should have plummeted with rising employment and real wages, the Howard government has expanded the welfare state by half in real terms – funded by the highest levels of taxation in Australia's history.

Australia's education system is entrenching disadvantage. The denial of opportunity to disadvantaged young Australians is at the heart of a reasoned critique of the Howard years. The best, the brightest, the most creative young people do not reside exclusively in more affluent communities. Many highly-intelligent, brilliant young Australians live in poorer communities. Too often they are inculcated with the belief that they aren't cut out to excel at school; that their highest legitimate aspiration is for a trade and they certainly shouldn't aspire to a university education.

As a result, social exclusion remains a blight on Australia's claim to be an egalitarian society. Family breakdown is endemic and financial hardship is especially prevalent in sole parent families.

A modern Labor philosophy

Since the loss of government more than a decade ago, too little thinking and discussion about the philosophy of the modern Labor Party has taken place. A lack of agreement on our philosophy – and sometimes a lack of interest in the very question – has allowed the Coalition's to become the dominant political philosophy in this country. That is changing under Kim Beazley's leadership. By championing reward for effort – 'when you put in you take out' – and education reform, Kim Beazley is seeking to recast Labor as a modern, progressive political party.

We seek to modernise Australian Labor not in the footsteps of Britain's New Labour but, as it happens, in resonance with its philosophy recently expressed by Tony Blair:

“We reach out not just to those in poverty or need but those who are doing well but want to do better; those on the way up, ambitious for themselves

⁴³ Mr Howard overstates the level of support the Coalition in opposition provided to Labor's economic reform program. The Coalition opposed repairing the income tax base to pay for reductions in marginal rates, the Petroleum Resource Rent Tax, the assets test on pensions and the spreading of superannuation to working Australians.

and their families ... The core vote of this Party today is not the heartlands, the inner city, not any sectional interest or lobby. Our core vote is the country”.

We reach out to middle Australia, to mainstream Australia. We of the modern Labor Party are developing new ideas for the modern Australia.

There is nothing as powerful as the power of ideas to transform society. Barely 25 years ago a small group of philosophers and economists, whose views had previously been dismissed as eccentric, began to gain the ascendancy over Keynesian disciples of the managed economy and government regulation. Known at the time as neo-classical economists, and soon after, pejoratively as economic rationalists, these followers of Hayek and Friedman imagined a world in which – just a quarter of a century later – we now live! It is a globalised, market-driven world economy that has generated wealth at a rate previously unimagined.

Governments tagged as conservative, such as the Thatcher and Reagan administrations, helped fashion this world of affluence. But so too did governments wearing the progressive tag – the Hawke and Keating governments in Australia and the Blair government in the United Kingdom.

Progressive political parties like the Australian Labor Party are now beginning to ask: where to now for the open, competitive model?

Labor’s modern philosophy needs to be defined against the background of a total breakdown of the old Left-Right divide. That divide was first established in the National Assembly after the French Revolution, where the deputies seated to the left wanted to pursue the goals of the revolution to their radical conclusion while those at the right placed greater trust in traditions.⁴⁴

Seeking to place Labor and the Coalition at discrete positions on a linear Left-Right spectrum is about as relevant today as the 18th century seating arrangements in the French National Assembly.

For those who object to this observation, please ponder these truths. The most radical free market reforms in Australia’s history were implemented by a Labor government headed by a former trade union leader – Bob Hawke. The ‘conservative’ Howard government has extravagantly expanded the welfare state. Hansonites to the far Right hanker for a return to protectionism on the spurious grounds that countries with lower labour costs are not competing on a level playing field - a view shared with the far Left of Australian politics.

Where does modern Labor fit in the cyber space of political philosophy that has superseded the old, Left-Right linear divide?

Much has been made of the values debate over the last month or so. A modern Labor philosophy must be built on a set of Labor values. Labor traditionalists would argue that Labor values are unchangeable; that the values guiding the formation of the

⁴⁴ See McKnight (2005, p. 3).

Australian Labor Party in the 19th century are immutable. But do values change in a changing world?

Labor in the 21st century holds dear many of the original values that guided its formation more than a hundred years ago. During the course of its history the Labor Party has embraced additional values, sometimes repudiating values held by the Party's founders and early leaders. Most particularly, the early Labor Party was opposed to immigration from the Pacific Islands, China and other non-white countries, and protectionist sentiments ran strong and deep.

Following the Second World War, Labor became a truly internationalist party, playing pivotal roles in forming the United Nations, liberalising world trading rules through the establishment of the General Agreement on Tariffs and Trade (GATT).

Labor turned away from socialism in favour of the market economy but with strategic government interventions to re-orient Australian industry to the export market and in support of public goods such as education, training and research and development.

The Hawke and Keating governments fashioned the open, competitive economy, allowing market forces to create prosperity. Labor opened up financial, product and labour markets, allowing competition to drive innovation and price reductions for consumers.

Labor achieved its reforms with the cooperation of the trade union movement. At all times, Labor maintained its commitment to collective bargaining and to the right of working Australians to be represented by trade unions. Over time, Labor moved to a decentralised wage-fixing system, in which wage rises were based on productivity improvements, but with a safety net for the low-paid. Again, the union movement cooperated in this transition to enterprise bargaining.

A further great legacy of the Hawke era was the embracing of ecologically sustainable development – following a path of economic growth that does not threaten the biological diversity upon which all life depends. The philosophy of ecologically sustainable development sought to avoid taking economic decisions that shifted environmental costs and the economic costs of environmental repair onto future generations.

Though some Labor values will change with the times, they must not succumb to the fashions, follies and foibles of the times. Or, as John Faulkner put it in his speech on John Curtin:

“He did not amend Labor’s policies to suit popular opinion. Rather, he persuaded the Australian people of the rightness of Labor’s policies”.

Faulkner drew from Curtin's words and life these Labor values: a better and more decent way of life for all – sought through solidarity, unity and devotion, through resilience, dignity and decency.

Who could quarrel with Curtin's values? Who could quibble with Ben Chifley's Light on the Hill; with his vision of the labour movement bringing better standards of

living and greater happiness to the mass of the people, of working for the betterment of mankind? Chifley's light on the hill burned brightly, showing the way to the great post-war immigration program, illuminating the darkness of his early predecessors who were by no means card-carrying members of the Brotherhood of Man.

Yet an error has been made in transposing Labor's immutable values into the modern world of rising affluence. It has been an insistence by traditionalists that those values must continue to be based on class struggle. The Federal Parliamentary Labor Party was formed out of class struggle – a struggle between striking shearers and the ruling class. But the affluence created by the policies of the Hawke and Keating Labor governments has broken down the class barriers. The beneficiaries of that prosperity no longer see themselves as belonging to a working class that struggles daily against capitalists. In so many ways they *are* the capitalists. Through more than \$900 billion of holdings in superannuation accounts – made possible by a Labor government – they own vast amounts of capital. And through their active shareholdings, 44 per cent of adult Australians take a keen interest in the financial performance of the nation's publicly-listed corporations.

Fewer and fewer working Australians resent the accumulation of wealth and more and more Australians aspire to it. They are abandoning the old worker-capitalist divide that defined socialism and capitalism.

The modern Labor Party should not only acknowledge this new world it must embrace it as its own creation. But doesn't that mean embracing the Howard philosophy? The answer is a resounding no. In the search for happiness for all people and the betterment of humankind, the modern Labor Party should bring to 21st century life the universal values of dignity, decency, empathy, respect and harmony espoused by Curtin, Chifley, Whitlam, Hawke and Keating.

The founders of what is now called the neo-conservative philosophy, including Adam Smith and Friedrich Hayek, understood not only the wealth-creating power of unfettered markets, they recognised the damage that practising the free-market philosophy can do to human sensibilities and personal relationships. Smith spoke of the stupefying effects of the division of labour and was a strong advocate of better education for workers. He saw a role for the state in providing a general and probably compulsory education for the masses. Smith regarded equal opportunity for education as a more sustainable means of achieving social justice than transfer payments from rich to poor.

Hayek warned that if we were always to apply the rules of the market 'to our more intimate groupings we would crush them'.⁴⁵ He saw a place for altruism and solidarity in the family and in community groupings.

But it is absurd to believe that people are capable of living their everyday lives according to two different sets of rules: the cold, ruthless, dispassionate market and the warm, nurturing, compassionate family. As Hayek feared, these two worlds are not coexisting in harmony, they are colliding. The market is crushing family and community.

⁴⁵ Hayek (1998, p. 18).

Progressive political parties attach great value to social order and social justice. The modern Labor Party should affirm the family as the focal institution of social wellbeing and reconcile the market with family and community through a love of learning.

A society that loves learning is a society that cherishes fairness, tolerance and compassion. A society that loves learning is an open society, a creative society. A society that loves learning is a society in which everyone has a decent opportunity in life. A society that loves learning sets itself apart from a society dictated by doctrine, by anti-intellectualism, a closed society driven by fear of foreigners and security among kin.

The modern Labor Party can be the party of learning, of creativity, a party dedicated to lifting the human spirit in open, strong, vibrant communities, not crushing it with fear of outsiders. It can be the nation-building party, attaining security in openness through a triumph of hope over fear, of compassion over intolerance, of creativity over dogma. Labor can be the party that recognises that a flourishing, self-assured society is much stronger and makes for a much more secure nation than a society cowed by doctrinaire government, a government at best indifferent to learning and at worst hostile to intellectual thought.

The modern Labor Party can have a vision of a prosperous, fair, tolerant and compassionate society. Labor's vision can be brought to life by promoting reward for effort, opportunity for all, tolerance, ecological sustainability, strong communities, a community of nations and a world at peace.

Labor's philosophy might be expressed in different ways and we can and should go on debating it. These are some early thoughts without pretentiously laying claim to the final word. But a party now that embraces and defines itself by these seven values, and develops a set of coherent policies based on them, would enjoy the support of the Australian people.

Reward for effort

In the past, progressive political parties have pursued greater equality of incomes as a central goal of public policy. The goal of equality of incomes had its origins in class struggle and Marxist philosophy: from each according to his ability, to each according to his needs.

For a long time, Labor's philosophy was based on material deprivation. But poverty today is no longer caused primarily by inadequate income and income support, but by poor education, poor health, gambling, substance abuse and a breakdown in social relationships. Indeed, Labor's economic reform program has done more to alleviate poverty than any income support program.

Those who genuinely need financial support from the state should be given it. But a quantum leap in passive welfare payments would do little to reduce poverty and hardship in Australia – either in indigenous or in non-indigenous communities. Seeking greater equality of incomes for its own sake does not seem to be an important

goal. Many choose to take their gains from working harder and smarter not as extra income but through forms of happiness that do not require extra income, such as greater control over working hours and spending more time with family, friends and in the community.

Progressive political parties have been closely identified with the welfare state, while conservative parties have paraded as defenders of reward for effort and self-reliance, low taxes and small government. Yet the Coalition has expanded the welfare state to a system of entitlements where citizenship brings with it an entitlement to taxpayer-funded income support. Through its welfare state, the Coalition has created an expectation that any time someone is experiencing low income the government will step in and supplement it – paid for out of higher taxes on working people. It doesn't seem to matter whether the fall-off in income is temporary; just part of a normal life cycle of people who, through their lives, earn more than enough income for a comfortable lifestyle.

The Coalition's contract with Australia is: we will keep sending you welfare payments and organise the services you want if you keep voting for us. The Coalition government has stifled incentive by taxing people hard, making them dependent on income support and services organised by the government.

Making the people dependent on government payments and services dis-empowers them, leaving them vulnerable to political manipulation. The subliminal threat is that to be assured of the government's support the people must continue to support the government.

Giving gifts subjugates the people to the government. In the social democratic tradition governments are the servants of the people. In the gift-giving tradition, people are subservient to the government; they feel compelled to continue supporting the government lest they lose their gifts.

People respond to incentives. Political parties should offer incentives instead of giving gifts with political strings attached. If governments want to bring out the best in people they should offer positive incentives. They should certainly not erect disincentives to creating prosperity and good social behaviour such as honesty, initiative and creativity.

It would be against the national interest for Labor to compete with the Coalition by promising a bigger welfare state and more government intervention. As the Coalition well and truly colonises the territory of the welfare state, Labor should position itself to occupy the ground of individual freedom, self-fulfilment and self-reliance.

Labor should return government to where it rightly belongs – as servants of the people. Labor's message should be: we will get government out of your faces and allow you to earn the incomes and buy the services you need, where you need them.

By refusing to bid in the welfare auction, Labor would be giving the people greater control over their destinies. By promoting liberty, freedom and self-reliance, Labor would be giving power back to the people in the great social democratic tradition.

Labor would be reversing the concentration of power now held by the federal government, dispersing it back to the people where it belongs.

In this modern social democracy, those who genuinely need financial support would be given it. Families in need of support in covering the extra costs of raising children would be given it. Australians who are denied opportunity would be given it. Those who need incentive would be given it. And those who want freedom from government interference in their daily lives would be given it.

Opportunity for all - where economy meets society

The modern Labor Party should set equality of opportunity as its highest aspiration. Every person should have the same opportunity for a happy, fulfilling life. And every person should be equipped with the same capacity to take advantage of opportunities presented to them, since those who do not break out of welfare dependency often lack the confidence and self-esteem to take the opportunities on offer to them. Rather than stigmatising the welfare-dependent as the Coalition has done, Labor acknowledges an obligation to support them in breaking the cycle of dependency and despair.

But how do we go about expanding opportunity?

All of the instincts of the traditional Left when the market collides with family and community is to fetter the market; to regulate it through legal limits on hours that can be worked and on prices that can be charged. But such regulation comes at a cost to the prosperity to which all people have a legitimate aspiration and which they can choose to take in monetary and non-monetary forms.

Rather than sacrificing prosperity and the taxation revenue a government can gain from it to expand opportunity, the modern Labor Party should fashion a new dynamic *where economy meets society*. In this better world, economy and society are not adversaries but allies. Wise investment in education and training, preventative health care and community building boosts productivity and participation in the workforce and builds social cohesion and personal wellbeing.

Britain's New Labour has recognised the wonderful potential of this new dynamic, Tony Blair telling the audience in his last speech to the party's annual conference as Prime Minister:

“We proved that economic efficiency and social justice are not opposites but partners in progress”.

In the 21st century, education stands alone as the paramount source of productivity growth. Education, too, improves health and wellbeing, increases tolerance and helps promote civility and compassion. Better health allows more effective and longer participation in the workforce and improves overall wellbeing.

Education is the key that opens two doors – to sustained prosperity and opportunity for all. The campuses of our preschools, our schools, our TAFEs and our universities can be the places where economy meets society. They can be the rallying points for Labor's crusade for a prosperous, fair, tolerant and compassionate Australia.

Nurturing a love of learning for the betterment of humankind is an adornment of Ben Chifley's Light on the Hill, his lantern burning more brightly than ever, modernised with the imaginative resources and opportunities of the 21st century.

A new reform program based around education would replace a cycle of welfare-dependency and despair with a virtuous circle of prosperity, self-fulfilment and wellbeing.

Strength through community

Traditional Labor philosophy embraces collectivism. Labor continues to express this philosophy through its enduring support for the right of working people to bargain collectively for pay and working conditions.

Modern Labor should also give expression to collectivism through its faith in the power of community. Security can best be achieved not by everyone going it alone but by building stronger communities. Strong communities create a strong, cohesive society.

A Labor Party that supports a love of learning is a party for strong, open, tolerant and compassionate communities.

Community building involves the openness of accepting people from different cultural and religious backgrounds while expecting them at the same time to embrace Australian values of fairness, tolerance and compassion. Acceptance of a multicultural Australia is recognition that society and community are enriched by cultural diversity.

Australian society will be strengthened, too, by reconciliation between indigenous and non-indigenous Australians. Practical reconciliation through better health and education of indigenous Australians is essential, but so is respect of indigenous cultures by non-indigenous Australians.

A community of nations

Charles Darwin argued that:

*“As man advances in civilisation, and small tribes are united into larger communities, the simplest reason would tell each individual that he ought to extend his social instincts and sympathies to all members of the same nation, though personally unknown to him. This point once being reached, there is only an artificial barrier to prevent his sympathies extending to the men of all nations and races”.*⁴⁶

Modern Labor should embrace the notion that all the earth's people are brothers and sisters in the community of nations, a modern-day enunciation of the Brotherhood of

⁴⁶ See McKnight (2005, p. 202).

Man. Lifting the oppressed out of poverty is a Labor goal. World trading rules are corrupt, rich countries conspiring against the poor by maintaining trade barriers, especially against agricultural imports. Essential to the fight against poverty is mutual world trade liberalisation, achieved through regional and global forums in a way that does not discriminate among countries.

At the same time, Labor should remain opposed to the use of child labour, the denial of basic human and trade union rights and the unsustainable exploitation of forest and other ecosystems in the production of goods and services for world trade. Such practices need not be adopted for poverty alleviation if the global trading rules were not so corrupted by rich countries.

Progress in alleviating world poverty through trade liberalisation and providing better education is vital in overcoming ignorance, intolerance and fanaticism. The breakdown of the world trading system was a major contributor to both the Great Depression and the Second World War. We must learn from these blunders and liberalise world trade on a non-discriminatory basis or be condemned to repeating history's tragic errors.

But global trade liberalisation for poverty alleviation is not enough on its own to assure global and national security. Labor's foreign policy is built on three pillars: the strategic alliance with the United States, regional security through cooperation with our Asian neighbours, and global security through a properly-functioning United Nations.

Terrorism is barbarism. It is abhorrent and totally unacceptable, no matter what cause its perpetrators are championing and how worthy they may consider their cause to be. Australia should be involved in the global effort to counter terrorism in all its forms.

Custodianship of the environment

In a modern Labor view, along with community comes responsibility not only to each other but to the earth. As custodians of the land we should follow the path of ecologically sustainable development – passing on our natural heritage intact and maintaining the vital ecological processes upon which life depends.

Modern Labor takes a global view of environmental issues such as forests and the greenhouse effect. We accept the responsibility at home of meeting these environmental challenges. Simply shifting activities such as minerals processing and forestry to other countries with weaker environmental standards does not improve the global environment. This is not an excuse to degrade Australia's environment but it is a consideration in the setting of environmental standards in Australia.

Land degradation and the sickness of the Murray-Darling river system are sure signs that we are taking too much from the earth and giving back too little. We must restore our river systems and other damaged ecosystems to health. But environmental repair work is futile if the causes of environmental damage are allowed to go unchecked. Typically the challenge is viewed in terms of finding the right *balance* between economy and environment. This is a fundamental misunderstanding of the proper relationship between the two. The real challenge for policy-makers is to *integrate*

economy and environment, recognising that damaging the environment through unsustainable economic development practices simply passes onto future generations some of the true costs of development. Viewed from an intergenerational perspective, ecologically sustainable development is both good economic policy and good environmental policy.

Towards a better plan for Australia

Essential components of a better plan

The two words sitting at the centre of the critique of the Howard era – squandered opportunity – describe the lack of a new reform agenda to sustain prosperity, the denial of opportunity to disadvantaged Australians and the unsustainable expansion of the welfare state funded by an incentive-crushing tax system.

By reforming Australia’s education system and investing wisely in education we would be expanding opportunity instead of continuing to expand the welfare state. We would be offering reward for effort, risk-taking and creativity instead of crushing incentive. And we would be building stronger communities by making available to neighbourhoods the social capital of our education facilities.

Other components of a better plan for Australia are set out in *Vital signs, vibrant society*. The ideas in the book on education reform are taken further here today.

Education reform

How can we nurture the creative talent in a learning society essential to achieving a prosperous, fair, tolerant and compassionate society? The answer can be found at the meeting place of economy and society. The most radical market-based reforms ever implemented in Australia’s history drove right past the nation’s state-owned education institutions, leaving them shackled with regulations that sap any energy for creativity, diversity and excellence. Despite these burdens, many highly-motivated, excellent teachers in high-quality state schools make a profound difference to the lives of their students.

Reforming our schools

State school enrolments have been flat for two decades as parents vote with their wallets and their children’s feet, walking them out of state-run schools and into the yards of less-regulated non-government schools. While enrolments in state schools have been flat since 1985, enrolments in non-government schools have increased by 42 per cent. State-owned schools in poor communities are being left with heavy concentrations of children with behavioural problems and learning difficulties.

This concentration of disadvantaged students in poor government schools is badly hampering the overall performance of those schools.⁴⁷ It is hard for children to learn

⁴⁷ Holmes-Smith (2006, pp. 2, 4 & 26).

in poor government schools when so many disruptive students and children with major problems at home are concentrated in the same classroom.

Teacher pay rates and scales in the state school system, based on years of service, resemble those of no other profession in Australia. Entry-level pay for teachers has failed to keep up with that of competing professions. Teacher pay scales have been compressed, denying the system the ability to financially reward excellence in teaching. We should be distressed but not surprised that many good teachers become frustrated and leave the state-run system for the non-government school system, teaching overseas or other professions.

Specialisation and excellence in the state-owned secondary schooling system is discouraged by an archaic zoning system. Zoning and other regulatory constraints on state-owned secondary schools are limiting their ability to compete with non-government schools. Enrolments in state secondary schools have fallen by 4 per cent in the last two decades while in non-government secondary schools they have increased by 47 per cent.

It would be easy and convenient to explain all the shift in enrolments away from state schools to non-government schools by a shift in spending patterns since the election of the Howard government. After all, less than 35 per cent of Commonwealth recurrent funding is now provided to state schools compared with around half in the mid-1980s. But the exodus to non-government schools was already underway in the early years of the previous Labor government, with enrolments in state schools declining by 3 per cent between 1983 and 1996 and in non-government schools increasing by 25 per cent over the same period.

A needs-based funding model across state and non-government schools applied in a less-regulated school system would reward excellence and help remedy social disadvantage. Funds would be payable to schools but would move with the child. Students with learning difficulties and behavioural problems would attract extra funding, making them more lucrative for state and non-government schools.

Needs-based funding in the school system would be used to attract the best teachers to the most disadvantaged schools, for teacher aides and for remedial teaching of literacy and numeracy.

Building stronger communities through our school campuses

Needs-based funding would also be used to enable schools in disadvantaged areas to reach out to include the local community in school life. Parents of students with behavioural problems and learning difficulties very often themselves had bad experiences at school. They might have been bullied, have had difficulty keeping up with classmates or were excluded from school. Successfully breaking the cycle of social exclusion requires getting the parents on board as well as their children. But parents who had bad school experiences as children are often reluctant to enter school grounds as parents.

A full-service school model has been developed in disadvantaged parts of Logan City south of Brisbane. Extra funding from the Queensland government is used for

visiting nurses, counsellors and psychologists, GPs and police on campus. Parents are encouraged onto campus to participate with their children in school life. This is an excellent example of using the social capital accumulated in a school to build stronger communities.

Most schools, including schools in disadvantaged areas, now have personal computers for use by students. It is not uncommon in disadvantaged communities for teenage girls to fall pregnant and leave school very early to raise their children. They lack the computing skills that nowadays are needed in the most basic of occupations. By making the personal computers available after school hours to teenage mothers, full-service schools would be using social capital to strengthen local communities.

Britain's New Labour is investing in a similar concept, called Extended Schools. These schools will be open year round from 8.00am until 6.00pm. They will offer year-round quality childcare, arts, sport and study support, parental support and family learning, and swift referral to specialised support services and community learning. The stated aim is to provide a 'third space', which is neither school nor home, where community activities can occur. Extended Schools will operate in clusters, building on the model of Education Action Zones developed in the early years of the Blair government.

A Labor program of Education Priority Zones, announced in 2001, should be revived and revamped to create clusters of full-service schools in disadvantaged communities, drawing the best experiences of Britain's Education Action Zones and Extended Schools.

Early childhood development

To attack disadvantage at its origins, a comprehensive national program aimed at early childhood development should be implemented jointly with the states. At just 0.1 per cent of GDP, Australia spends less on preschool education than any OECD country.⁴⁸ Early childhood development programs would include home visiting by nursing staff, positive parenting programs and a national preschool year for all four-year olds.

A big new idea – a high-school education for all

International and Australian studies have demonstrated the huge national benefits from extra years of schooling. An analysis of data from 21 OECD countries concludes that an additional year of schooling would increase per capita GDP by 6 per cent.⁴⁹ In Australia it is estimated that a one-year increase in the average level of schooling would not only eventually lift GDP by 8 per cent, it would permanently boost GDP growth by 0.5 per cent per annum.⁵⁰ These are very powerful effects – the best investment Australia can make.

⁴⁸ OECD (2006c, p.197).

⁴⁹ Bassanini and Scarpetta (2002).

⁵⁰ Day and Dowrick (2004, pp. 9-10).

Most of the rise in the proportion of young Australians entering year 12 occurred during the period of the previous Labor government, when the retention rate doubled from 36 per cent to 72 per cent. Since 1996 the retention rate has risen much more slowly, to 75 per cent.

Both the Productivity Commission and the OECD find that there was a deceleration in skills formation during the 1990s following the rapid acceleration of the 1980s. They conclude that in more recent times, skills formation has made no contribution to Australian productivity growth.⁵¹

Drawing together the work of the OECD and the Productivity Commission, Eslake asks:

*“So why has education apparently not made any discernible contribution to the improvement in Australia’s economic performance over the past decade? The answer, unfortunately, seems to be that there has not been any discernible improvement in Australia’s educational outcomes – at least insofar as they impact on productivity growth during the period”.*⁵²

While educational outcomes are not totally reflected in the number of years at school – the quality of schooling and access to vocational training for early school leavers are important considerations – there is nevertheless compelling evidence that extra years of schooling matter a lot.

Around 30 per cent of young Australians do not complete high school and 41 per cent of students from low socio-economic backgrounds drop out early.⁵³

Yet the gains to young people from extra years of education are well established. Early school leavers earn around 20 per cent less than those completing high school, who earn around 20 per cent less than young people completing vocational education who, in turn, earn on average 40 per cent less than university graduates.⁵⁴

In the current resources boom it has become conventional wisdom that leaving school early and doing a trade will set a young person up for life. It is believed that these teenagers are better off leaving school, since they have no interest in or aptitude for learning at school.

The Prime Minister shares the popular view:

“Quite a lot of the problem is that it’s a deep-seated cultural problem. We went through a generation in this country where parents discouraged their children from going into trades, and they said to them, ‘the only way you will get ahead in life is to stay at school until year 12 and go to university’. Year 12 retention rates became the goal, high year 12 retention rates became the goal. Instead of us as a nation recognising there are some people who shouldn’t go to university, and what they should do is at year 10 decide they

⁵¹ Banks (2003, p. 5); OECD (2003, pp. 37-38).

⁵² Eslake (2003, p. 6).

⁵³ MCEETYA (2006, p.39)

⁵⁴ Access Economics (2005, pp. 8-9).

*are going to become a tradesman ... Everybody doesn't have to go to university, and a lot of people will be a lot better off if they don't go to university and they recognise that at age 15 or 16, and go down the technical stream".*⁵⁵

Mr Howard is questioning not only the value of a university education but the very appropriateness of a having a goal of as many young Australians as possible completing high school.

Resources booms don't last forever. The pre-boom experience is that several years after early school leaving, 20 per cent of males who left early were unemployed, compared with only 10 per cent who completed high school. The outlook for females was even worse. A massive 60 per cent of females who left school early were not in the labour force a few years after leaving, compared with only 7 per cent who finished high school.⁵⁶

Those young Australians who otherwise would drop out of school but are obliged to stay for another year would enjoy earnings that are on average 10 per cent higher in every year of their working lives; making them more than \$100,000 better off over their working lifetimes.⁵⁷ Similar results have been obtained for Britain, Canada, the United States, Norway and the Netherlands.

Just being at school enables them to pick up extra skills and knowledge over and above that which they could obtain by leaving school and entering the world of intermittent work and unemployment.

On the consequences of early school leaving, the latest OECD education report could not be clearer. It finds that in OECD countries:

*"... a persistently large share of young people do not complete secondary school, today's baseline for successful entry into the labour market ... people who have not completed upper secondary school, and particularly women, continue to face serious labour-market penalties" [emphasis added].*⁵⁸

The minimum age for leaving school was raised in NSW and the ACT after the Second World War from 14 to 15 years and in Tasmania to 16 years. Other states and territories raised the minimum school leaving age to 15 during the mid-1960s. Queensland, NSW, Victoria, South Australia and Western Australia have all in recent times announced their intention to increase in the minimum school leaving age to 16 years. These are good developments.

But leaving school at 16 does not mean completing high school. It can still mean that up to 30 per cent of young Australians will drop out before completing high school –

⁵⁵ John Howard, The Sunday Program, 6 March 2005.

⁵⁶ See Vickers (2006) and references cited therein.

⁵⁷ Leigh and Ryan (2005).

⁵⁸ OECD, 'Low educational attainments continue to penalise people in many OECD countries', statement announcing the release of OECD *Education at a glance: OECD indicators 2006*, Paris, 2006.

almost 80,000 a year. Australia's high-school completion rate of 70 per cent is well below the OECD average of 81 per cent and far below that of the education pacesetters – Norway at 100 per cent, Korea at 97 per cent and Israel, Ireland, Japan, Denmark and Finland, all above 90 per cent. The only major OECD countries with lower high-school completion rates than Australia are Chile, Spain, Brazil, Turkey and Mexico,⁵⁹ and Spain is now investing heavily in education to remedy its deficiencies.

While Australia's 80,000 young people who leave school early each year would be big winners if they were obliged to complete high school or its equivalent, the gains to the nation would also be large. Welfare payments would be reduced and national income and taxation revenue increased. Since 90 per cent of young people in custody did not complete Year 9, it seems likely that criminality might also be reduced.

The Council of Australian Governments has recently put investing in human capital onto its agenda and has asked the Productivity Commission to model the economic effects of various options for doing so.

The Council of Australian Governments should include on its agenda making compulsory for all young Australians the completion of high school or its equivalent in vocational education. Queensland is moving in this direction with its learn-or-earn program, but the completion of high school or its equivalent is not obligatory. For those teenagers who cannot function in conventional classroom settings, a vocational education stream incorporating school-based apprenticeships should be established and existing alternative settings to mainstream school should be expanded.

Without a reform like this, Australia will stand flat-footed in the global race to acquire human capital. Forecasts undertaken by Deutsche Bank suggest that between now and the year 2020 Australia will have the lowest percentage change in average years of education among the 33 countries examined.⁶⁰

Reforming our higher education system

If the state school system seems highly-regulated, the public university system bears a remarkable resemblance to the old Soviet command-and-control system, with the control centre issuing directives from Moscow on the Molonglo.

On other recent speaking occasions I have advocated a much less heavily regulated and more competitive higher education system.

Students would be funded according to need through a system of Commonwealth scholarships, with disadvantaged students receiving extra support. Funds would be payable to universities of the students' choice but funds would move with the student. Students receiving Commonwealth scholarships would pay the balance of the fees through HECS.

⁵⁹ OECD (2006c, pp. 42 & 48).

⁶⁰ Deutsche Bank (2005, p. 16).

In this less-regulated system, universities would receive the same funding for students irrespective of the level of Commonwealth scholarship received by each student. They would have no reason to prefer less-subsidised or more highly-subsidised students. The Commonwealth would no longer determine the number of student places at each university. Instead, this would be determined by the competitive ability of each university to attract students to courses on offer.

If students aren't attracted to particular courses, the courses would close. If campuses or whole universities were poorly administered they would be subject to mergers or takeovers by more efficient university administrations. Regional campuses might not be financially viable but could be supported through Commonwealth community service obligations. But again, inefficient regional campuses would be subject to competitive pressures from more efficient administrations.

Reforming the welfare and tax systems

If we shift the priority in Australia to expanding opportunity for all through affordable, quality education, productivity and incomes will rise, poverty will fall and there will be no justification for the present size of the welfare state. As Adam Smith observed 230 years ago, the sustainable way of achieving social justice is through education, not by continually increasing transfer payments to the poor.

Yet Australia's tax and welfare systems are calibrated to reduce the rewards from investing in education. Under this incentive-crushing tax and welfare system more than 900,000 Australians stand to lose more than 50 cents in the dollar of extra income earned through a combination of extra tax paid and benefits withdrawn.⁶¹

Future revenue windfalls from the resources boom should not be squandered on government-allocated consumption spending as it has been during the last four years. Instead, it should be used to invest in education and to fund genuine tax reform by reducing income tax rates rather than increasing income tax thresholds. Such a reform program would increase the returns to education, provide reward for effort, initiative and risk taking and encourage extra personal investment in education.

A better way

Reflecting on the electoral success of Britain's New Labour, Tony Blair recently told his party's conference:

"We won not because we surrendered our values but because we finally had the courage to be true to them".

Let us have the courage always to shun opportunism, abandon the expedience of poll-driven politics and stay true to our values of reward for effort and opportunity for all in a prosperous, fair, tolerant and compassionate Australia.

⁶¹ AMP.NATSEM (2006).

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