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A Generation of Reform

– How Australians shook off their industrial malaise to become resilient free-market winners ..... and how they are now backsliding –

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Abstract

This harsh, undomesticated continent was developed during the 19th century by surprisingly few people, who imported capital, knowledge and British institutions. Within a mere century, they created one of the most affluent and civilised countries on earth. In the 20th century, more interventionist, protectionist policies caused Australian living standards to fall behind other Anglo-Saxon 'outlier economies'. In the early 1970s, a massively redistributionist, Keynesian and inflationary experiment by a Labor government was followed by a conservative government's painful monetary restriction, coupled with opposition to supply-side reforms. These experiences reinforced a growing 'industrial and cultural cringe'.

An intellectual and political 'Hayek push' to liberalise product, capital and labour markets gained momentum from the late 1970s. Australians eventually shook off their 'institutional sclerosis'. During the 1980s and early 1990s, successive Labor administrations implemented gradual, pre-announced tariff cuts (with selective exceptions), liberalised capital markets and floated the exchange rate; but they treated social welfare, public finances and labour markets by and large as sacred cows. This strategy advanced economic freedom, but eventually soured. From 1996 to 2007, a succession of (conservative) Howard administrations consolidated public finances and advanced labour market reform. These measures combined with the beneficial consequences of earlier liberalisation and favourable terms of trade to produce a sustained boom in living standards. Average incomes rose by one-third during the 'Howard prosperity' and job creation accelerated. More importantly still, greater economic freedom, a more flexible supply apparatus and spreading wealth revived the 'Aussie can-do spirit'.

The less regulated, open economy weathered the Asian financial crisis and the 2008-09 global recession rather well, because the new supply-side flexibility allowed Australian producers to respond with new-found energy to the growing demand for natural resources from an ascendant China.

Alas, it seems doubtful whether the political elites and the commentariat have learnt the lessons from past *dirigisme* and reform. Economically illiterate governments at federal and State levels are now busying themselves with new regulations, infringing on private property rights and expanding the reach of the visible hand. Though still enjoying one of the highest degrees of economic freedom, Australians now face a serious threat to their prosperity, because large sections of the self-anointed elites seem determined to stymie this nation's most distinctive competitive advantages: cheap and abundant energy and world-class expertise in producing food, fibres and minerals for world markets.

Yet again, we are bound to discover that we cannot escape paying the price of liberty and prosperity: eternal vigilance.

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'If we regain [the] belief in the power of ideas,
which was the mark of liberalism at its best, the battle is not lost'.
F. A. Hayek

"History does not repeat itself, but it rhymes", Mark Twain once joked … and, I believe, so do country case studies. This is why we, the organisers, responded to requests from our visitors and decided to include a session in which to discuss a few empirical lessons from the Australian experience. You may ask why an economist, who has lived almost half his life elsewhere, should speak about this country's policy experience. Admittedly, my views on political economy have been shaped by the post-war German experience and subsequently by direct involvement in the East Asian ascendancy. However, my discussing Australian policy issues is not inappropriate: Ours is a nation of immigrants. About one-quarter of the 22 1/2 million inhabitants is overseas-born, a greater proportion than in any other major country. Moreover, I am able to give the Australian story a personal twist — how I morphed from a bemused outsider into an engaged insider and citizen by choice.

A Glance at Australian Economic History, 1800-1970

Australian economic policy and performance over the past generation cannot be understood without a little historic background. During the 19th century, this huge, harsh continent was developed by amazingly few people with great energy and speed thanks to ample, though not easily extracted, natural resources, the influx of entrepreneurs, workers, capital and – very importantly – the liberal institutions of Victorian Britain[1]. The private initiatives of predominantly British settlers "transformed a prison-yard and hunting-ground of savages into a productive annex to Europe and Asia" (Shann, 1930; also see Hancock, 1930)[2]. The 'Colonials' soon became great institutional innovators, who created a free, dynamic and democratic society based on "Judeo-Christian ethics, the progressive spirit of the Enlightenment and the institutions and values of British political culture. Its democratic and egalitarian temper also [bore, and still does bear] the imprint of..… non-conformist traditions" (so Prime Minister John Howard in his 2006 Australia Day address).

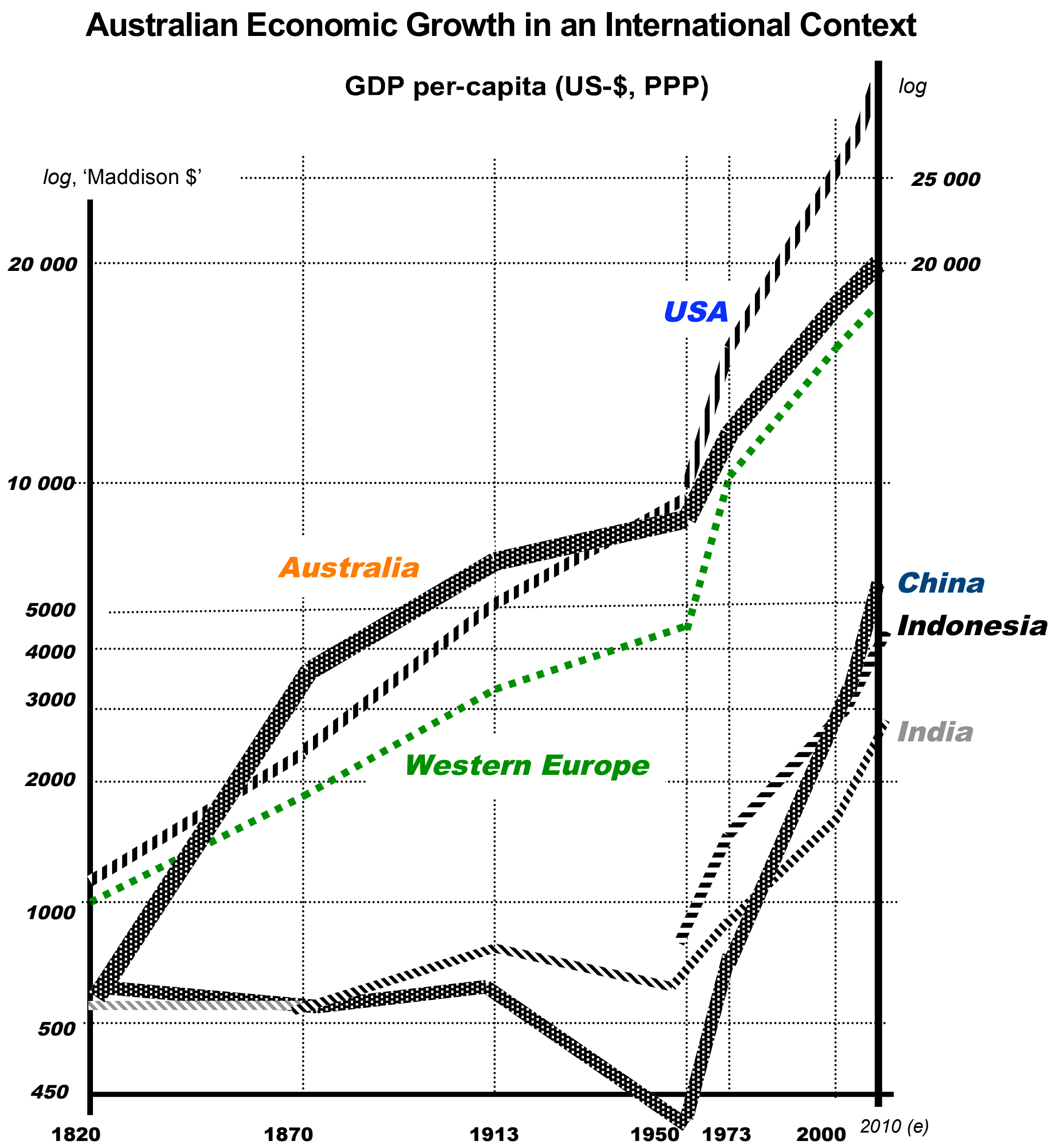
By 1870, a free-enterprise culture had permitted discoveries of gold to be turned into a major growth push. 'Marvelous Melbourne' became one of the world's most splendid cities south of the Equator, rivaled only by Buenos Aires. The continent's about 2 million inhabitants had attained an average real living standard some 80% higher than that of Western Europe and 50% higher than that of the United States (Graph 1). Australians excelled at overcoming the 'tyranny of distance' – between the Colonies and from Britain, their major trade partner – by exploiting new transport and communications opportunities (e.g. steamships, trucks, telegraph, telephone, refrigeration to export

[1] I propose to eschew clumsy terms such as 'classical liberal', 'paleo-liberal', 'neo-liberal' or 'libertarian'. Instead, I will use the time-honoured term 'liberal' in the original 19th century meaning of 'committed to freedom' — rather than as meaning 'liberal use of other people's money'. With Hayek, I define liberalism as the worldview typified by such Enlightenment greats as David Hume, Adam Smith, Edmund Burke, Lord Acton, Benjamin Constant, Alexis de Tocqueville, Immanuel Kant, Friedrich Schiller, Wilhelm von Humboldt, James Maddison, John Marshall and Daniel Webster (Hayek, 1967, p. 160). [American readers are invited to press their mental *Find & Replace* buttons and replace 'liberal' by 'libertarian'].

[2] For the estimated 3-400 000 Aborigines living on this vast continent ca. 1800, the arrival of Europeans with their contagious diseases was initially a calamity. Those, whom eminent economic historian Edward Shann still labeled 'savages' in the 1930s, had maintained a fairly stationary Paleolithic civilisation over more than 40 000 years, living in small nomadic bands, often close to extinction. — As of 2006, the majority of the over half million Australian citizens who classify themselves as Aboriginal or part-Aboriginal, live in households that they share with persons of other ethnic backgrounds. Alas, many are suffering from the usual afflictions of all-embracing state welfare.

fresh meat; Blainey, 1966). The Australian income lead narrowed late in the 19th century in the wake of an extended drought, major speculative excesses, a subsequent economic crash and the organisation of a political and industrial labour movement amidst a wave of strikes — at the same time as the British Labour movement was established. Although the liberal tradition was understood and promulgated in Australia as well as anywhere else (Smith, 1887/2005), a new generation acquired preferences for protectionism, unionisation and redistribution, not least at the expense of the 'wealthy graziers' who had developed successful export industries. These political preferences were to shape the policy regime permanently after the six Colonies federated in 1901 to form the Commonwealth of Australia.

Graph 1



Source: A. Maddison & updated by own estimates

The new nation adopted what my fellow speaker today, Paul Kelly, called the 'Australian Settlement': Whites-only immigration policy, protectionism to push inward-looking industrialisation, centralised quasi-judicial wage fixing, State paternalism and trust in Imperial benevolence (Kelly, 1992, pp. 1-16). These were utilitarian political choices. The main economic development strategy was to ensure highly profitable national markets for industry and then force industry to pay high wages. Artificially high wage levels and a leisure-rich life facilitated ongoing immigration. After the second world war, the political decision was made to 'populate or perish', in practice to promote mass immigration from Europe.

Alas, the policy choices of the fist half of the 20th century entrenched a political landscape that was wide open to vested interests. More and more, it also hampered the inflows of capital, enterprise and knowledge, on which an affluent developing country like Australia depends. No one will be surprised to learn that featherbedded industries gradually slid into a notorious 'industrial malaise'. By the 1960s – despite a marked improvement on the disastrous 1930s – the Australian growth performance was anaemic by post-war international standards. Pervasive interventionism served the interest of established industries, unions and government, but discouraged development. For example, local scarcities were given as the reason to embargo the export of iron ore and scrap metal. In late 1960, the embargo was modified — and (miraculously!) high-grade ore deposits were immediately discovered and soon developed. An iron ore boom followed, turning Western Australia into one of the biggest exporters of high-grade iron ore in the world (Kasper *et al.,* 1980, p. 58).

At the time of the first oil crisis in the early 1970s, Australian living standards were 25% below those in the US and only a scant 10% above the West European average (Graph 1). Australians were by then suffering from a palpable 'confidence deficit'.

The Whitlam Experiment (1972-75)

When I came here on a visit in 1973, I was puzzled why an economy so rich in natural resources, with a relatively young, English-speaking population, with a high savings rate and well placed in the dynamic East Asian time zone should grow so pitifully. None of my new economist colleagues at the Australian National University were able to offer good explanations. Instead, most were excited about the experiment of the newly elected, impatient Labor government to remake society and inject massive macroeconomic stimulation, a hasty strategy that pushed the ratio of total government outlays to GDP from about one-quarter in the 1960s to one-third by 1974 — a massive structural shift from which Australians were not to recover for the next generation[3]. There was talk in Labor ranks of nationalising industries, e.g. oil and gas. The activism was accompanied by strikes and rapidly accelerating inflation. After many years of steady, though unspectacular economic performance, the Whitlam experiment appeared to many like a revolutionary earthquake. — At a forum of the Fabian Society in Canberra, to which I was invited at the time, I remarked that an evil sorcerer, who wanted to harm the self-confidence of Australians for a long time to come, would expand public expenditure, massively boost the number and pay of civil servants, raise the general wage level, pursue an accommodating monetary policy and devalue the currency. When someone in the audience shouted: "But this is what we are doing", I rested my case. I felt totally out of place!

The reckless stimulus experiment of the Whitlam government coincided with the first global oil-price explosion. The combination produced inflation of around 17%, *as well as* rising unemployment. The Keynesian prescription obviously failed. Cured of the last vestiges of money illusion and encouraged by the political wing of the labour movement, the trade unions used their clout to obtain rising *real* wages, a tactic of course not unique to Australia. In an attempt to undercut run-away inflation, the government suddenly cut tariffs across the board by 25%. As was

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[3] Government outlays as percentage of GDP, 1960-67: 23.2%; 1974: 33.4 %, 1974-89: 35.5% (OECD, *Historical Statistics*, 1960-89, Table 6.5).

to be expected, this proved disruptive; and the government soon imposed 'corrective' quota restrictions. When it attempted to keep spending without proper Parliamentary approval, the Whitlam government was sacked in 1975.

The Fraser Government's Slow Crawl towards Economic Freedom (1975-83)

The conservative Fraser governments, which first replaced the Labor administration and then won government by a landslide, undid some of the Whitlam-era changes, made some fiscal adjustments though without drastic expenditure cuts, and imposed strict monetary restraint to slow the 'inflationary flywheel'. Inflation eased slowly at first, but then seemed stuck in the 7 to 10% p.a. bracket. Faced with wage-cost pressures and high real interest rates, many small firms went under. The government was engaged in a painful tug of war with the unions in what one observer described as "reminiscent of the to-and-fro surges of First World War trench warfare" (Stone, 2008, p. 68). Alas, making industry more competitive and opening up to international competition was not part of the stolid Fraser government's policy design. Unemployment rose to unprecedented heights (to 6% in 1978, after 20 years of less than 2%). The public mood was somber. Many derided this as the 'Land of the Long Weekend' and believed what some arrogant Asian leaders were now saying: that Australians were destined to become the 'poor White trash of Asia'.

Please indulge me and allow me to describe from my own personal micro-micro angle, how liberal ideas began to matter more in shaping policy-making and consequently the nation's track record. By the mid-1970s, it was obvious to me that the central cause of the Australian predicament was a rigid supply apparatus, the consequence of seven decades of protectionism and redistributive meddling. The challenge was to make industries and the workforce more responsive to evolving circumstances by fostering a climate of enterprise and innovation. It seemed necessary to limit the size of government and to deregulate capital, labour and product markets across the board, above all to remove the linchpin from the entire interventionist regime, namely the controls of international trade and capital movements, by the pre-announced and gradual opening-up of the economy. My thinking on these matters was based on what was soon to become known as 'supply side economics'. It soon became apparent that more and more leading figures in public administration and industry were thinking likewise.

To illustrate the point that a comprehensive liberalisation strategy could enhance economic performance, I described two 25-year scenarios, which I hoped would be plausible: One was to muddle on with the Mercantilist *status quo*; the other was comprehensive liberalisation. To my surprise, some economists and political observers found my line of argument plausible, namely that comprehensive reforms could more than double the growth rate of real per-capita incomes (Kasper, 1977; 1978). My essays caught the eye of the Shell Company, who were at the time contemplating a very costly and technically risky new gas venture off the NW Coast of Australia and who had been spooked by the Whitlam government's talk of nationalising the hydrocarbon industry. The company asked me to gather a five-man team of free-market experts, and we wrote a book, *Australia at the Crossroads,* to elaborate the merits of liberalisation and structural change (Kasper *et al.,* 1980).

The book came out at a fortuitous time. The Tariff Board/Industry Assistance Commission[4] and the Australian Treasury – though not the Treasurers whom they advised – had long argued for productivity growth through a rational, market-friendly economic policy (Treasury, 1973; 1978).

[4] The Tariff Board, set up in the 1920s, became an advocate of free trade in the 1960s. Its successors – the Industry Assistance Commission (from 1974), Industry Commission (from the late 1980s), now the Productivity Commission (from 1998) – morphed into a kind of independent 'supplyside commissar' advising governments on microeconomic reform.

Keynesian demand management was discredited by the experience of the early 1970s. Moreover, visits by Milton Friedman and Friedrich Hayek to Australia, as well as wider intellectual currents, which foreshadowed the coming Thatcher-Reagan spring, had made thoughtful Australians receptive to what had been deemed outright heresy only half a decade earlier. The 'Australian Settlement' was crumbling, as Imperial benevolence had long evaporated, and immigration policy was freed up.

I sensed a change in the *zeitgeist* when some conservative Members of Parliament began to talk to me. They were the 'Dries' in the Liberal Party, at the time the most visible opposition to the stolid, protectionist Fraser government (Kelly, 1992; Hyde, 2002). To my great surprise, a number of bankers, industrialists, academics, parliamentarians and publicists came together to turn the policy blueprint contained in the *Crossroads* book into a feasible reform program. Some five dozen of us kept meeting informally from 1981 onwards as the *Crossroads Group*, among them Greg Lindsay of the Centre for Independent Studies, an infant think tank of impeccable liberal lineage[5]. We began to write op-ed pieces advocating heresies, such as the complete removal of all capital controls, the gradual, but across-the-board lowering of all tariffs, vouchers for socialised services, lower, simpler taxes and balanced budgets. All of a sudden, I enjoyed the imaginative, inspiring and energetic camaraderie of people of a truly liberal mindset.

The media were mildly amused, but skeptical. Observers pointed out that Australia's was a thoroughly Benthamite polity — pragmatic, utilitarian, but individualistic, not given to abstract principles, rather to expedient fixes. I was told that this was not America or New Zealand, where a commitment to high, abstract principles could count on popular resonance, but rather a polity dominated by vested interests given to the interventionist calculus of immediate advantage to most individuals. In short, the 'Hayek push' was bound to fail (Collins, 1985, pp. 154-5). Most who lectured me that politics was the art of the possible, rejected my counter-argument that this attitude was an un-Enlightened cop-out, the recipe for foul compromise, contradictions, the loss of liberty and long-term sclerosis (Hayek, 1973, pp. 56-61). My position was then – and still is now – that it is the role of the academic observer to help make the impossible possible by arguing the case from basic, consistent principles. Though at the time not fully aware of the great Australian tradition of pragmatic muddling through, I certainly discovered that individualism and liberalism had deep roots in some circles and that the case for principled liberalisation policies could be argued successfully.

Let me relate two experiences, how new liberal thinking could be made to matter at the retail level of the market for ideas. I harbour fond memories of a heated debate in the boardroom of a steel producer over cutting the exorbitant steel tariff to reap big gains from specialisation and scale economies. This so annoyed the directors that they withheld dessert. However, a year later, I was invited back, taken seriously …. and served dessert! — When, in 1981, I drafted a letter to the editor calling for free trade in motor vehicles, which 28 fellow economists co-signed, the immensely mollycoddled car producers responded with hostile phone calls. Yet, in 1990, they commissioned a fellow *Crossroads* campaigner and me to help them prepare a submission to the Australian Industry Commission, in which they acquiesced to gradual, pre-announced tariff cuts on certain conditions. Our submission pointed out that the gradual exposure of the car industry to more and more international competition made it necessary that internationally immobile production factors – namely organised labour and government administrations – behave like support organisations for those producers, such as the car makers, who are competing internationally[6]. The idea that purely

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[5] From the very beginning, a handful of New Zealanders joined in our discussions. Maybe, we helped to inspire some of the radical, but subsequently aborted Kiwi reforms between 1984 and 1993 — but that is another story!

[6] In the last minute, the unanimity of the big car producers was torpedoed by the Ford company, who reverted to the car assemblers' traditional argument for massively more subsidies and continued tariff protection. Progress in

domestic operators, such as trade unions or public service and infrastructure providers, must also compete internationally was later, in the early 1990s, pursued systematically by Labor governments who badgered and bribed State governments to behave responsibly and abandon 'subsidy wars' among themselves. This 'National Competition Policy' was to become an important ingredient in the transformation of the Australian polity and economy (Kain, 1994).

Hawke-Keating Era (1983-96): Lop-Sided Liberalisation

When a rejuvenated Labor Party won the election in 1983, I was initially pessimistic. However, the new government – with more or less tacit support of the Opposition – promptly embarked on financial deregulation, floated the $A, removed controls of international capital flows, admitted foreign banks (Kasper-Stevens, 1991) and introduced staged tariff cuts. Successive Labor governments gradually lowered the 'effective rate of protection and subsidisation' of manufacturing, which had stood at an arch-protectionist near-40% in 1970 and 25% when they took office, to a near-free-trading 5% during the 1980s and 1990s (Graph 2[7]). The conservative Opposition had shed its past commitment to high industry protection and now desisted from opposing liberalisation on grounds of job losses, which would in any event only be industry-specific and transitional. Seen against the background of pervasive interventionism and disregard for supply-side rigidities during the preceding eighty years, these were truly game-changing moves towards economic freedom.

In those years, the most effective way to promote liberalisation was to talk to the 'Dries' in the Liberal Party and trust that the Labor government would soon pinch many of their reform ideas. Yet — as apparently behooves a social-democratic government — the Hawke-Keating administrations treated socialised welfare and labour-market arrangements, by and large, as sacrosanct. The Labor Party and the unions now realised that wage explosions and massive deficit spending a decade earlier had cost them office. In 1983, the political and industrial wings of the labour movement therefore adopted an incomes policy to constrain nominal wage increases, the 'Wages Accord'. Treasury and others pointed to a 'wage overhang' (uncompetitive wage-cost levels), but the obvious solution — namely to lower labour-unit costs by job-market deregulation and tax reform — was almost totally cold-shouldered. Instead, the unions — deprived by the 'Accord' of opportunities to demonstrate their relevance to their dwindling membership through high nominal wage claims — concentrated on obtaining productivity-destroying work practices. Some employers stood up to union powerbrokers and offered rewards for changed work practices, which allowed better productivity. The outstanding example was an enterprise bargain at Robe River mine in Western Australia, which demonstrated that iron ore output per employee could be tripled and work accidents drastically reduced if only employers and employees in a workplace cooperated fairly.

The 'Accord' era was not of benefit to the average worker: Between 1983 and 1991, when reformist Treasurer Paul Keating replaced former trade union boss Bob Hawke as Prime Minister, unemployment had risen from 9.9 to 10.5% and weekly earnings, when adjusted for inflation, had hardly changed (Stone, 2008, p. 68). These facts were certainly projected into public view by the H.R. Nicholls Society, a high-powered private group in which some members of the Mont Pèlerin Society were eminent. Time and again, they made clear that union control of the work sphere and

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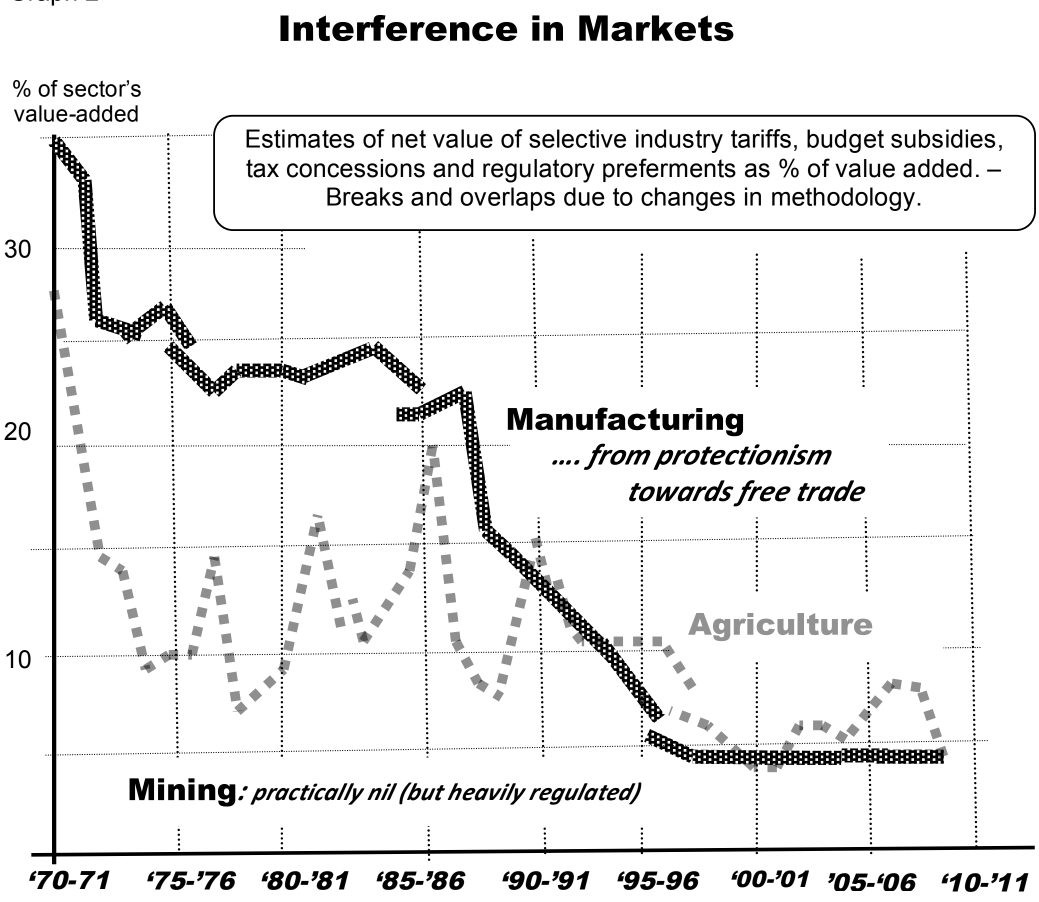
car industry liberalisation has been slow-paced under both Labor and Liberal-National Party governments. The industry still receives considerable and less than transparent subsidies.

7 The Productivity Commission estimates the net value of tariffs and quotas, *plus* fiscal subsidies, to industries and then expresses this distortion of market conditons as a percentage of the industries' value added. This estimate reflects the fact that output prices tend to be raised by dirigiste interventions, but so may an industry's input costs. Non-Australian readers may be amused by the bizarre practice of the Productivity Commission to call such market distortions 'Industry assistance'.

government protection of union privileges facilitated impermissible infringements of individual liberty and property rights, including the right to use one's own labour and skills as one sees fit.

Graph 2



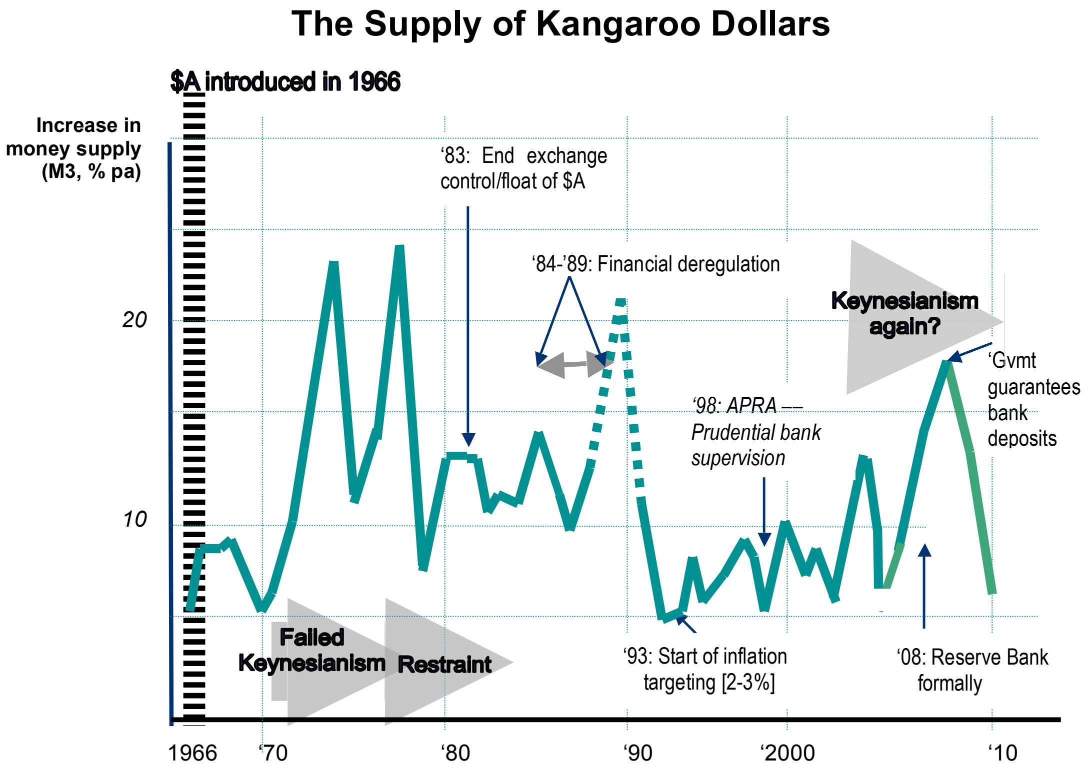
Source: Productivity Commission (2010), p. 21.

In 1993, Labor Prime Minister Keating criticised collective bargaining that was underpinned by minimum awards and advocated that permission be given for non-union enterprise deals. The *Industrial Relations Reform Act 1993* incorporated these ideas, but also laid down 'unfair dismissals clauses', which made firing workers costly and cumbersome. It of course created a new obstacle for job creation (Stone, 2008, pp. 69-70).

Given the progressive ageing of the population (though less acute than in Japan, China or Europe), the Labor government initiated a regime of forced, tax-favoured savings (superannuation). Predictably it has become a political football. Whatever liberals might think about individual self-responsibility, forced savings are a virtually inevitable consequence of the Australian tradition of providing tax-funded pensions for those who failed to set aside enough for old age. It is also not clear to what extent forced savings have replaced those savings that would have been made voluntarily.

On the important monetary front, Australian policy also made progress (in line with other OECD countries). Money supply had blown out during the Whitlam era, in some years by 25%. Politically directed and confronted with a rigid economy, the Reserve Bank of Australia had followed an erratic course — with the unsettling consequences that Milton Friedman would have predicted. During the Hawke-Keating years, after financial deregulation, money growth became steadier, but still ran at around 10% p.a. (M3, Graph 3). In 1993, the Bank switched to inflation targeting; prudential bank supervision was introduced in 1998 (Berg, 2008). The new rule set, which boosted the regulatory apparatus and increased compliance costs, nevertheless helped to ensure that the Australian financial system fared reasonably well over the following decade, during the Asian financial turmoil of 1998 and the recent global financial crisis. However, the early 1990s saw the onset of asset-price inflation, globally and in Australia (see below). In 2007, towards the end of the prolonged boom of the 2000s, broad money supply again grew at time by more than 20% p.a., but this rate of expansion was brought down more rapidly than in most other OECD countries, to 6.3%. during financial year 2009-10. This is part of the global financial crisis story to which I shall return.

Graph 3



Source: Reserve Bank of Australia

Since a decimal currency, the Australian dollar ($A), was introduced in 1966, it has lost more than 90% of its purchase power, most of it during the years of Keynesian demand management and regulated rigidity of the supply side. As elsewhere in the developed world, inflation has been much lower since the 1980s. In Australia's case, consumers benefited greatly from the tariff cuts and the free importation of cheap consumer goods made in China.

After considerable, though lop-sided progress towards economic freedom, the Labor regime eventually soured. Nonetheless, the voters extended the social-democratic tenure to 1996, after the Liberal Party had proposed to shift some of the tax burden to a new Goods and Services Tax.

The Howard Prosperity (1996-2007) and the Gradual Evaporation of Reformatory Zeal

During the long Howard prosperity, real per-capita GDP grew by 32.4%, i.e. on average an impressive 2.4% p.a., and total employment by 27.1% (December 1995 to December 2007; Stone, 2009), helped along by favourable terms of international trade.

From the very outset, the conservative government tried to reform labour markets to do away with central wage fixing, quasi-judicial arbitration and union dominance[8]. One reason for complications in the reform proposals, which the government produced, was the lingering influence of the industrial-relations bureaucracy, but the main reason was that the government had to manoeuvre carefully in the face of Senate opposition. Nonetheless, from 1996 onwards workplace agreements could be concluded with or without union participation during the negotiations; a limited list of minimum work conditions were laid down; the powers of the (traditionally union-dominated) Arbitration Commission were curtailed; secondary boycotts were prohibited; and compulsory unionism was outlawed. Over subsequent years, Senate intransigence repeatedly thwarted the government's attempts to liberalise job markets further (Stone 2008).

Up to the 1990s, big unions had dominated construction, transport or mining. Now, workers and employers were able to negotiate enterprise deals or individual contracts, which eliminated wasteful work practices and permitted them to share the benefits of better productivity. Technical change also affected the work sphere: New computer and mobile phone technology — and the exceptional ease of starting a new business in Australia — allowed many to become independent contractors. Most bricks are now laid, most road transport is now operated, and many business-support services are now supplied by small husband-and-wife enterprises. They make up a resilient, resourceful network of mini-entrepreneurs. Since 2004 more Australians have been working as self-employed contractors than as union members (Roskam, 2005a, b).

While the growth of contracting amounted to the spontaneous self-liberation of working people, the Howard government tried soon after taking office to tackle the troublesome waterside workers' union head-on. Australian ports had become high-cost growth bottlenecks. For all practical purposes, the union had long been the employer and work manager in the ports, reducing the port authorities and stevedores to paying the wages. In the wake of a mighty confrontation in the ports in 1998, the government used tax funds to buy out the superannuation claims of waterside workers, but failed to overcome the quasi-monopolies of the ports that underpinned the abuses in the first place (Trebeck, 1998). If the full 'growth rewards' of liberalisation are to be reaped, competition has to pervade the whole network of interdependent factor and product markets. The construction industry, too, had long been the scene of thuggish and costly union confrontation. When scandalous facts were documented in an official inquiry, the legislators cleaned up industrial practices in 2005. –– Only after the 2006 election, which changed the Senate majority in Howard's favour, could legislation remove the 'unfair dismissal' obstacle to firing — and hence to hiring.

Labour unit costs dropped over the Howard years, overall by some 8%. So it is not surprising that job creation proceeded steadily. After the removal of 'unfair dismissal laws' in 2006, it accelerated. From March 2006 to the onset of the election campaign in September 2007, nearly half a million new jobs were created, adding 5% to total employment, most of it full time (Stone, 2008). The unemployment rate fell to 4.2% by September 2007, and strikes – once a hallmark of the Australian economy – virtually disappeared. As one would expect in a fairly competitive economy with high employment, not only the rich were becoming richer, but also the poor. Total male earnings, for example, rose impressively during the Howard years (1995-2007: in CPI-adjusted terms by 56.6 % on average). If compared with the preceding Labor administrations, which had pursued a centralised, corporatist macro incomes policy, the workers and 'battlers' fared materially much better under Howard's liberalisation of labour markets. Whilst individual workers did much better, the same cannot be said of the union movement. By August 2007, only 14% of employees in

[8] However, the Australian government's proposals fell short of the simple, straightforward New Zealand legislation of 1991, which had turned employment contracts into (almost) free common-law contracts.

private industry held union tickets. (In the public sector, union membership was still 41%; Stone, 2008, p. 73).

Federal fiscal policy – long given to deficit spending – was put on a new institutional footing by Liberal Treasurer Peter Costello (Costello, 1996). Among other things, the government promised to publish what it was demanding of corporations, namely a balance sheet of its objectively valued assets and liabilities. To the government's discomfiture, a 'National Commission of Audit' soon documented that successive Commonwealth governments had been in the business of value destruction: Liabilities exceeded assets by over half a year's revenues. In addition, it uncovered contingent liabilities to the tune of a further year and a quarter of revenues (National Commission of Audit, 1996; Hyde, 2002, pp. 234-235). Any business with such a balance sheet would be declared bankrupt. In 1998 the Treasurer enshrined, against Senate opposition, formal limits on Federal spending and borrowing in a 'Charter of Budget Honesty'.

The Howard-Costello team turned the Federal budget from an average Keating-era *deficit* of 2.4% of GDP into an average *surplus* of 2.2% of GDP. The task got easier over time, as interest payments on Commonwealth debt dwindled. The government now also took the opportunity to introduce a 10% Goods and Services Tax (GST), streamlining some taxes, placing the invariably conflict-fraught Federal-State relations on a new financial footing, but also raising the overall burden of taxation from an average of 22% of GDP on average in the 1980s and 1990s to 23.8% in the 2000s (Australian Treasury, 2010a, p.126)[9]. Thanks to copious revenue flows, the Commonwealth and the States were able to expand the number of public 'servants' between 2000 and 2007 by a whopping 40%! Also, the income tax burden was shifted more onto high-income earners[10].

To cope with the prospect of an ageing population, the Hawke-Keating Labor administration had decreed a regime of compulsory saving for retirement. The conservative government now exempted pension payments out of private superannuation funds from income tax to enhance the incentive to save long-term. To the same end, some of the Federal fiscal surpluses were channeled into a government-run 'Futures Fund'.

The long Howard prosperity was characterised by a growing exuberance in real-estate and share values (paralleled in many other mature economies). Booming asset values and easy credit contributed to a general feeling of wealth and fuelled consumption via a kind of Haberler-Pigou effect[11]. However, private debt also went up steeply (in the five years to 2009 by no less than 70%). Relative to GDP, Australian households now owe more than their US counterparts. To

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9 The GST is a federal tax with an inbuilt automatic growth potential; all GST revenue is remitted to the States. This frees State governments even more than before of the onus of taxation and the need to cultivate the growth conditions of their own tax base, i.e. the State economies. I consider the neglect of fiscal equivalence (raising the funds for what you plan to spend) and the cartel of governments, which it underpins, a great weakness in Australia's 'economic constitution'.

10 The top 5% of income tax payers used to pay 25% of total revenue under Labor, but now have to contribute about 35%. By contrast, the bottom quarter of income earners are now contributing a mere 2.5% of net income tax revenue.

11 In 1937, the Austrian-American economist Gottfried Haberler, later an eminent MPS member, showed why the Keynesian assumption of a long-term unemployment equilibrium was unrealistic (Haberler, 1937). Once one makes the plausible assumption that rising real values of assets raise consumer spending, economies with flexible price levels return sooner or later to a full-employment equilibrium. In the early 1940s, British economist Cecil Pigou refuted the simplistic Keynesian consumption function with similar arguments. — The rising real value of Australian homes, beach houses and share portfolios during the 1990s provides (yet again) convincing evidence that Haberler and Pigou were right, and Keynes wrong. If future inflation erodes the real values of the assets of the growing numbers of retired, under-funded baby boomers — as well as their currently self-assured, by now middle-aged offspring —, we might yet experience depressed consumer spending.

understand what this means, one has to realise that home ownership and mortgage debt in this country are among the highest in the world. Should house prices cave in one day or interest rates rise steeply, the Cassandras might yet prove correct and excessive household indebtedness might yet destabilise the economy (Keen, 2009).

Booming East-Asian demand for raw materials is often given as the main reason for the sustained Howard prosperity. But this was only a proximate cause. Behind the growth of exports and incomes has been the capacity of Australian mining, service and transport enterprises to meet demand flexibly and of many Australian manufacturers and service providers to respond creatively to new world-market opportunities. This was supported by a stable tax regime. The much-cited theory of a 'resource curse' no longer applied to our responsive economy.

Overall economic growth accelerated thanks to the opening of the economy and the comprehensive supply-side reforms over the preceding two decades, combined with the labour-market flexibility and fiscal probity promoted by the Howard government. Once international trade is free, producers tend to reap static and dynamic specialisation gains. Once capital markets are deregulated, capital is free to seek uses with more promising returns (and sometimes greater risks). Once labour markets are free, labour and skills become more productive.

Alas, the Howard government did not cut tax rates when the resources boom would have made this possible, preferring instead increased populist spending in election years. This met with little political resistance, as the principled liberals, the 'Dries' of the 1980s, had long faded from Parliament. Australia's Benthamite political utilitarianism and political opportunism again ruled the scene.

In 2007, the tactic of populist election spending failed, and a massive union campaign saw a new Labor government elected.

Pause for a Stock Take

As of the first decade of the new millennium, most Australians are living in nice middle-class comfort, enjoying a good measure of freedom, security and material well-being. Many are now take this for granted. If – as Simon Kuznets asserted – children and population growth are indicators of confidence and well being, Australia is not too bad a place compared to mature OECD countries with shrinking populations: Natural population growth has accelerated to about 0.9% p.a., and we are now adding 0.6% through immigration. Relative to the size of the incumbent population, immigration is now the highest of any major country. In the process, the nation has become multi-ethnic. Alas, illegal boat immigration, which the Howard government had virtually stopped, has snowballed since the Rudd-Gillard Labor governments have taken over and abandoned the long-standing bipartisan approach to immigration. The big challenge iwioll now be to uphold our time-tested institutions and to integrate new immigrant groups, so that the 'institutional cement that holds society together' does not fracture. Some recalcitrant minorities (and elites who are preaching self-hate and cultural relativism) notwithstanding, integration in Australian suburbs and workplaces has so far gone fairly well — a source of justified pride, but also a major challenge for the future.

From a global perspective, the quality of life in Australia is hard to match. Let me only cite one figure, reflecting no doubt a bias dictated by my years: What the World Health Organisation defines as a 'healthy life expectancy' — the average age to which people can expect to live without disabilities — is 74 years (2007) in Australia. It is surpassed only by Japan, Switzerland and San Marino, no doubt the result of an active outdoor lifestyle, a healthy climate, good, clean nutrition and – maybe – regular alcohol consumption!

In the mid-2010s, the economy enjoyed a healthy, robust constitution thanks to the steady reforms of the preceding twenty-five years — financial deregulation, big tariff cuts, tax reforms, privatisations and labour-market deregulation. Ours is now a wide-open economy, with more and more young Australians working in, or interacting with, an exciting, dynamic new Asia[12]. Foreign visitors are impressed by the scale and modernity of agricultural and mining enterprises in Australia's North and West; young Europeans and Asians, who come to visit and work here for a while, sense the thrill of cultural experimentation and youthful energy. We have become big exporters of technical expertise, development consultancy services and education; the latter increasingly because an Australian education has *de facto* become an easy way to obtain a residence visa. Just mix with the 30 000 young men and women from Downunder, who are having the ball of a lifetime in Shanghai, or the thousands of Aussies, who partake in the entrepreneurial adventures of Dubai and Silicone Valley! I rate this new openness, the joy of enterprise and creativity and the revival of confidence as more important consequences of our new-found economic freedom than mere GDP growth! While the majority of Australian voters, as elsewhere, are opting for tax-financed welfare hand-outs and subscribe to an egalitarian vision – not only equality before the law, but also a good measure of equality in living standards – they also embrace a sense of individual independence. Maybe, nothing reveals this more than the fact that parents decide in increasing numbers to steer their children away from government-run schools. Over the past ten years (1999-2009), 208 000 more youngsters were sent to private schools, compared to a mere 26 000 to government schools, and this despite considerable additional costs to parents.

One can best summarise the Australian economic experience with reference to measures of economic freedom. Here, I am using the annual estimates prepared by the Fraser and Cato Institutes (Gwartney-Lawson, *passim*), to which Australia's (if not the world's) oldest liberal think tank, the Institute of Public Affairs in Melbourne, is contributing[13]. Graph 4 shows that the Whitlam experiment was an obvious disaster for economic freedom. Great were the subsequent economic pains in terms of slow economic growth, poor job creation, the erosion of the value of money and obstacles to the pursuit of happiness. Then, slow, piecemeal reforms enhanced our economic freedom and lifted us upward in the league tables of a freer world. The liberalisation of trade and capital movements played a key role in propelling our economic freedom. Successive governments liberalised unilaterally, steadily, across the board and with by and large bipartisan support (Banks, 2010, esp. pp. 3-19), even if a few industries were – and still are – a little 'more equally' featherbedded than others.

While estimates of economic freedom (as those depicted in Graph 4) put an objective and internationally and inter-temporally consistent angle on economic freedom in Australia, those many enterprising Australians, who live and work in East Asia and America, tend to return home and often find the country much more regulated and the political elites much more interventionist than they remember. Most then lose their patriotism very quickly. It is also worth noting that specific interventions, such as tariffs, have been replaced by more general regulatory regimes. While the liberal observer would not object to a more general, abstract and simple set of rules, it has to be recorded that Australian regulatory authorities have grown massively and elbowed aside self-responsibility — whatever lip service elected politicians may pay to 'less red tape'. We now have mega-regulators, which operate separately from the elected executive branch of government and which can only rarely be tamed by the judiciary (Berg, 2008). The consequences for liberty are

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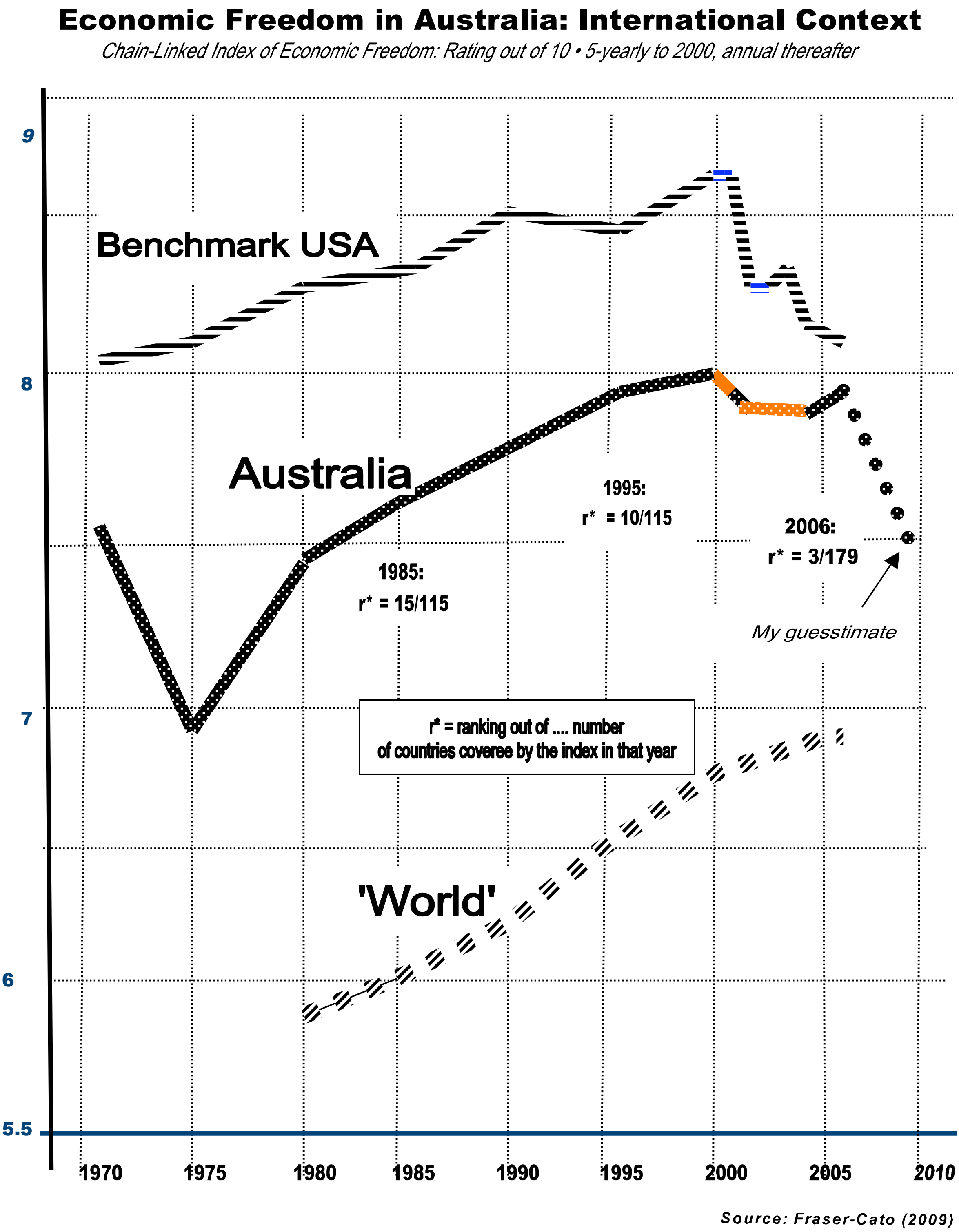
12 As of 2008, imports account for 19.5% gross domestic product plus imports (a conventional statistical measure of openness). It is roughly what one would expect of a country of Australia's size, location and level of development.

13 The Heritage Foundation and the *Wall Street Journal* also estimate economic freedom (in some 180 countries as of 2010) with similar results, though by quite a different methodology. To my mind, Gwartney's and Lawson's methodology more closely reflects my own conception of international competitiveness, namely relative profitability (price *minus* unit factor costs) in various locations.

serious and are reflected in the fact that the decades of steady, slow improvement in freedom ratings have come to an end since 2000 (Graph 4).

Graph 4



The Australian story illustrates, yet again, an important insight: What matters for long-term economic growth are not so much the static (Ricardian) specialisation gains from trade, not even the dynamic gains from realising scale economies, indeed not even the immediate gains from the freer flow of capital and enterprises. What matters above all is what I call the 'Eric Jones effect'[14]: openness triggers political rivalry to attract internationally mobile producers and innovators by promoting liberty. This in turn fosters prosperity.

After the turn of the century, the Australian conservative government seemed more and more glib and self-satisfied — nicer to businesses than to markets. In economic freedom ratings, Australia had ranked for a long time below the benchmark set by the United States. However, when the Bush administration's 'compassionate conservativism' lowered that benchmark early in the new millennium, the Howard government looked comparatively good, despite its own 'reform fatigue' (Graph 4)[15]. Some State and local governments have been particularly slow learners about the realities of globalisation. However, this audience will not be interested in often narrow-minded attacks on private property rights and the freedom of their use by various opportunistic State administrations. These authorities certainly need reminding that they, too, are now in the international competition to attract or retain enterprises and capital and that they, too, are in a position to foster or destroy liberty and prosperity[16].

The loss of reformatory zeal was reflected in a slowing pace of productivity growth from an average rate of 2.1% p.a. in the 1990s to 1.4% during the 2000s (Australian Treasury, 2010a). Much was left undone, not least in letting go of selective industry favouritism. For example, the textiles, footwear and clothing industries still are enjoying a 14.5% effective rate of government 'assistance', and the car and components industry 11.8% (2008-09), which perpetuate long-standing distortions and unfairly penalise consumers (Productivity Commission, 2010, p. 20).

As elsewhere, principled economic reforms have of course rarely been popular. Neither the broader electorate in mature welfare states nor the politically well-connected big-business community favour fundamental reforms. In the Australian case, reforms have rarely been guided by a cohesive vision. Rather, they often resembled a pragmatic tango: three steps forward, one sideways, one backwards. Political leaders, who all too often suffer from understandable cognitive limits, find it always difficult to interpret evolving circumstances. Established political elites have a natural tendency to postpone timely reforms of the fundamental rules (Kasper-Streit, 1998; chapter 9: 'The Evolution of Institutions'). In Australia's case, this natural inertia is reinforced by the Benthamite tradition of opportunistic, un-Enlightened constructivism. Hayek's insight applies, namely that freedom can only be upheld when it is defended as a fundamental principle, not because of some perceived utility in a particular case (Hayek, 1967). Fortunately, citizens from different cultural backgrounds increasingly challenge the traditional utilitarian consensus and can do so effectively, given the new openness to international trade and factor flows and a more intensive international exchange of ideas.

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14 Named after British-Australian economic historian Eric Jones, who, in his book *The European Miracle* (Jones, [1981] 2003), highlighted this dynamic nexus between openness and free institutions.

15 For the sake of completeness, let us note that *Freedom House* gives Australia a perfect score of 1.0 each on political and civil liberties (2010) and *Transparency International* rates Australia an equal 8th in its corruption perception index (2009). Though Australians enjoy a high degree of personal autonomy and individual rights, they do not enjoy a free vote: In 1923, the Paliament – i.e. the political *agents* – imposed compulsory voting on the people, who are, after all, the *principals* in national political life.

16 The Australian federation has become increasingly lop-sided in one important respect: The central government raises most taxes and remits funding to the States though a multiplicity of transfer programmes. This frees State governments from the onus of raising their own taxes and the responsibility for cultivating their own tax base by fostering long-term economic growth and creating producer-friendly institutions.

The Rudd/Gillard Administrations (2007-2010/2010-):
The Pendulum Swings from Freedom Fatigue to Anti-Capitalism

As mentioned, union membership dwindled in the 1990s and 2000s. Moreover, globalisation progressively curbed the influence of union power brokers and other self-anointed elites, who had long been sheltered by the collectivist umbrella of the 'Australian Settlement'. It came therefore as no surprise that the unions and the intelligentsia intervened massively in the 2007 election campaign in favour of the Labor Party, which committed itself to labour-market re-regulation and other reactionary policy shifts. The new Rudd government was inspired by an ideology quite different from earlier reformist and pragmatic Labor administrations. For example, Mr. Rudd opined: "Neo-liberalism ... has been revealed as little more than personal greed dressed up as an economic philosophy ... it now falls to social democracy to prevent liberal capitalism from cannibalising itself." Incidentally, he also expressed the bizarre belief that Hayek had extolled monopoly capitalism.

As payback for electoral assistance from the unions, the Rudd Labor government overturned many earlier, hard-won labour-market reforms, including some which the Hawke-Keating Labor governments had taken such pains to implement. As of mid-2010, the Gillard-led government seems even more determined to re-regulate labour markets. Due to the 2008-09 economic slowdown and still flexible labour markets, unit-labour costs have so far remained rather stable, so that many jobs have been saved — for the time being. The Rudd-Gillard government also embraced a number of elitarian-collectivist causes, the most important of which was to curb carbon emissions to 'save the planet'. In the process, it tried to set up an elaborate system of taxation, administration and slush funding, called an Emission Trading Scheme (ETS). However, Parliament blocked the scheme in late 2009 and early 2010, after a chastised, suddenly 'politically correct' Opposition had initially endorsed it. The tide turned against ETS only when the citizenry and Opposition backbenchers rebelled and the Copenhagen fracas of December 2009 heralded a sea change in world opinion about man-made warming. Nonetheless, all political parties have supported costly and energy-wasting designs promoting renewable energy schemes, such as wind and solar (Russell, 2010). In addition, Australia's federal, State and local governments are pursuing all manner of social and environmental causes, which steadily erode private property rights by interventionist salami tactics.

Although they had claimed to be 'fiscal conservatives' before the election, the incoming Labor government was disposed to over-react to the global recession of 2008, which offered inexperienced leaders an excuse to lift public spending and engage in manic managerialism. Like so many other governments, they believed that the appropriate reaction to the debt crisis was to incur more public debt. Between October 2008 and February 2009, several big spending programmes converted an inherited healthy Federal surplus into a deficit of $57bn. Tax cuts were rejected out of hand.

In the haste, implementation of the 'Keynesian spendathon' was poor. Relatively little of the 'stimulus' spending went into economic infrastructure (ca. 14% of the total). Most was directed into quick-fix programmes without any cost-benefit analyses being published. Cash was handed to pensioners, roofs in private homes were insulated for 'free', school halls were built whether needed or not, and so on. Since then, we have witnessed a comet tail of scandals, price gouging, rorting, policy reversals, taskforces, commissions of inquiry and other embarrassing unintended consequences. Australian (Federal and State) government debt, still modest by most international standards, has been bumped up to $200 bn or about 19% of GDP. In 2010-11, the public deficit will amount to about 4-5% of the national product, about half the OECD average – but this average is of course distorted by the BUGS (Britain, United States, Greece and Spain), with whom we are not going to compare ourselves! Unlike the European countries, Australia is not part of a 'bail-out club'. Our public authorities therefore have to perform to stricter standards of fiscal probity, if this country is not to go the way of Argentina or Greece.

The formal regulatory limits on public spending and debt, which the previous administration had imposed with great fanfare, bound the hands of the new crop of political and bureaucratic opportunists about as tightly as the EU's Maastricht Treaty did — in other words, the 'constitutional limits' were a mere paper tiger! As of 2010, we experience the unavoidable reverse side of the 'spendathon'. Tax burdens are rising and an element of uncertainty about Australia's international posture on investment was introduced in mid-2010 by a Labor government proposal for a new 40% tax on mining profits. Though since modified, this tax proposal immediately lowered the value of superannuation portfolios, which are heavily invested in mining shares, pushed up interest rates, weakened the $A and will probably curb the long-term growth of mining in Australia. Miners and other producers will also be affected by the partial re-regulation of labour markets. As a result, Australia became a comparatively less attractive place to invest and work, though this still remains a great place to live!

In 2008 and 2009, the Australian economy narrowly escaped sliding into what is technically defined as a recession. The government now shares bragging rights with Poland that a recession was avoided. The question on many people's minds is whether this resilience was due (a) to the government's prompt and massive 'stimulus', or (b) to the healthy constitution of a reformed, responsive economy.

I am inclined to place the bulk of the explanation on the latter factor, although one cannot totally dismiss an impact on the time profile of production and employment. Were massive expansions of nominal demand to create real jobs and growth, as the Keynesians tell us, then fiscal stimulus would have worked for Barack Obama, Gordon Brown and José Luís Rodrigues Zapatero. It hasn't. One can also refer to an IMF analysis, which compared the size of expansionary Keynesian spending as a percentage of GDP in the G-20 countries with the degree to which growth outcomes differed from the IMF's original forecasts for 2009. There was no significant positive correlation whatsoever between 'stimulus' and aggregate output[17]. By May 2010, the G-20 finance ministers, too, appear to have discovered that exhilarating demand stimulus tends to be promptly followed by a vexatious debt hangover. Arguably, the citizenry perceives public stimulus programmes by now as no more than the announcement of future tax increases. We learnt, yet again, that the need for market-oriented supply-side reforms and smaller government cannot for long be covered by a summary fiscal brush.

So, by default, we must conclude that recession was avoided thanks to the healthy constitution of Australia's responsive economy, our strong banks and our reformed market institutions[18]. While

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[17] We are indebted to Prof. Sinclair Davidson, Melbourne, for pointing out that the Australian Treasury, in its 2010 Budget Papers, handpicked data from this IMF analysis of G-20 countries to 'prove' that public spending significantly lifted spending and production. Treasury tried to mislead Parliament. We can now boast our very own 'StimulusGate' (Treasury, 2010b; Davidson, 2010).

[18] Incidentally, economic reforms had also 'recession-proofed' Poland.

The reader may ask: "What about China?" Demand in China was expanded by massive, concerted monetary and fiscal measures after the groth rate (year on year) dropped to 6%p.a. in early 2009 in the wake of the global financial shocks of 2008. By early 2010, the Chinese economy had resumed its rapid growth pace (10-12% p.a.). Many claim this as a Keynesian success story.

This claim is unconvincing: Whenever in history old industrial countries slide into the slowdown phase of a long growth wave (or Kondratieff cycle), the *new* industrial countries keep growing. This was, for example, the case in the 1880s when the new industrial country (NIC) of the era, Germany, overtook Britain. In the 1930s, the Soviet economy, then a NIC, kept growing (which was wrongly interpreted by some as a triumph of socialism). And after the first oil crisis of the 1970s, the East Asian NICs passed rather unfazed through the global slowdown. In the late 2000s, the good luck of the industrial newcomer favoured many provinces of China. Schumpeterians would say that NICs always enjoy one stroke of good luck after take-off, as they are spared the traumas of 'creative destruction' and political resistance to it.

economists have long extolled the growth benefits of economic freedom (as I do here, too), we must not forget another major benefit of economic freedom: economic resilience when cyclical demand fluctuations hit home[19]. Alas, Australia's predominantly collectivist, short-termist commentariat and the government are unlikely to absorb this insight.

My worries about the long-term consequences of the rush into Keynesianism notwithstanding, the greatest single threat to economic freedom in Australia is coming from political reactions to the, as yet unproven, allegation of *man-made* global warming (Robinson, 2008; Plimer, 2009; IPA, 2010; Carter, 2010). The Australian government seems to have abandoned for now the aspiration to be the first lemming over the cliff towards climate-induced serfdom. However, a swing from enlightened, fact-based analysis to a policy based on emotional, romantic sentiment — sometimes even based on faked scientific evidence — has taken hold. This swing in the *zeitgeist* is driven by hard political motives: The UN-led push for climate controls offers manifold excuses for political-bureaucratic elites to re-assert the 'primacy of politics', which was first postulated by the Jacobins during the French Revolution. A big political push is on to again encroach on individual freedom, outflank free markets and regain political primacy, which was weakened by the international mobility of capital, knowledge, high skills and enterprises. The climate push now spearheads a 'political primacy offensive' (Kasper, forthcoming 2010).

Australia seems particularly imperiled because one of our biggest competitive advantages has been cheap energy; we are an energy superpower[20]. 'Energy wowsers' now urge us to forego the elemental pleasures, which cheap, clean and copious energy offer – enjoyment, comfort, mobility, employment, empowerment. They ask us to abandon our successful economic structures and our lifestyle. They also demand that Australians no longer contribute to these same benefits for others through energy-intensive exports. Imports of aluminium made in Australia, for example, now allow official Europe to look more pure and self-righteous in the UN emissions calculus; our energy-intensive exports now help Chinese citizens avoid worsening burdens of local air pollution. Is all this to change? Will we soon be forced to shut down our world-class metal-smelting, because federal, State and local governments inflict artificial controls on Australian fossil-fuel users, while corrupt United Nations officials hand out blanket indulgences to less fuel-efficient competitors in third-world locations? Will Australian governments continue confiscating the traditional property rights of farmers to harvest rainwater and trees on their land without compensating them, so that we look good in climate negotiations? Such interventions hamper productivity growth and adaptive flexibility at a time when Australians, too, are progressively ageing and need all the productivity growth they can realise (Australian Government, 2010).

Australians have experienced openness and enhanced economic freedom and are now aware of the challenge of rapid economic advances in Asia (Graph 1). Many realise that Australian producers now operate in a frontline state and therefore must compete unhindered by regulatory handicaps to make good use of ample land and energy resources. Given our openness and connectedness with ascendant Asia, even minor slippages in freedom standards will inflict prompt and massive losses of growth and jobs. This – I trust – will prevent a complete return to the *dirigiste* excesses of the Whitlam era, the rhetoric of government-funded NGOs notwithstanding. Nonetheless, I predict a substantial decline in economic freedom. I dread the consequences for prosperity, internal harmony and freedom (Graph 4).

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19 A competitive economy, so our textbooks tell us, has three important advantages: (i) It grows faster. (ii) It is cyclically resilient, hence more stable. (iii) Economic monopolies – and their capacitiy to corrupt political life – are better held in check (Henderson, ed., 2008, pp. 73-75).

20 Australia is the world's biggest coal exporter, the second-biggest uranium exporter, and the fifth-biggest gas exporter.

We have again reached a critical crossroads, where freedom and its material and psychic benefits are widely taken for granted. Anti-capitalist sentiment is again in the ascendancy. Former MPS Presidents Jim Buchanan and Antonio Martino were right when they warned us during the marvelous decade following the demise of communism that collectivism will persist in the mature democracies and even advance again (Buchanan, 1990; Martino, 1998).

Like all of humanity, Australians are condemned to fight an interminable battle to uphold the banner of freedom. In many respects, politics in this country is torn between the European social-democratic aspiration to lazy collective welfare and an older and a more American taste for individual self-reliance and liberty. It therefore seems to me fortuitous that the Mont Pèlerin Society – this 'Global Freedom Academy'– has assembled in this country. I have tried to outline, in this *tour d'horizon*, that much has been achieved here to inspire you. On the other hand, I hope that your intellectual inputs will help us to halt the swing of the pendulum toward top-down collectivism and away from freedom.

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