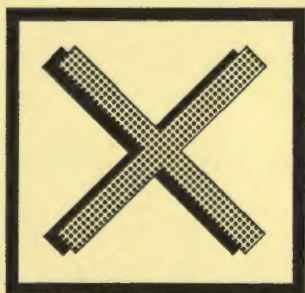


**MISREPRESENTATION!
DISTORTION!
DENIAL!
SUPPRESSION!**

CENSORED



ECONOMICS

The Establishment Attempt to 'Kill'
The 'Petersen Plan'

by

Jeremy Lee

CENSORED ECONOMICS

FOREWORD

'*Censored Economics*' does not present a technical background to the Petersen Plan. This has been provided in two booklets already published - '*CONSUMER DISCOUNTS - THE ANSWER TO RISING PRICES*' and '*THE COMMONWEALTH TREASURY - SERVANT OR MASTER?*'.

The first of these gave evidence of how Price Subsidisation was used during the war, when Price Control had failed to halt inflation. It also dealt with the financial policies of the Liberal-Country Party in the 1949 election which were very similar to the proposals in the Petersen Plan.

The second booklet dealt with one aspect of the obvious campaign to destroy the Petersen Plan - the Treasury Circular to all Federal Government members in early 1976, containing stock answers and a sample letter to be used when replying to letters from constituents. It also provided evidence countering the arguments in the Treasury Circular.

There is no point in re-stating what has been published before. But, in retrospect, it is now possible to piece together the various ploys that have been used to prevent objective discussion on a set of proposals from the Queensland Premier which has gained widespread interest throughout Australia and also overseas.

'*Censored Economics*' is one example of a widespread phenomenon in the western world - a rigid censorship which operates outside the confines of the law, but which is a rigid one nevertheless. Its techniques vary from silence - censorship by omission - to ridicule and distortion. But silence has predominated. Such a situation is best summed up in the words of the famous Oswald Spengler:

"And the other side of this belated freedom - it is permitted to anyone to say what he pleases, but the Press is free to take notice of what he says or not. It can condemn any 'truth' to death simply by not undertaking its communication to the world - a terrible censorship of silence, which is all the more potent in that the masses of newspaper readers are absolutely unaware that it exists."

Economic policy in the western world is often presented as a choice between only two alternatives - a knife edge between the Scylla of inflation on one hand, and the Charybdis of unemployment on the other. A. W. Phillips, a British economist, developed the theory in the late 1950's, that the two alternatives were constants in the choice of economic policies. The 'Phillips curve' presented economists and policy makers with a neat picture of various rates of unemployment, each associated with a level of inflation. The curve, sloping downward to the right, indicated that the lower the unemployment rate, the higher the inflation would be.

Professor James Tobin of Yale University, maintains in his recent book *'The New Economics'* that no political candidate has ever dared to admit that price stability and full employment are incompatible goals.

By the end of the 1960s it was clear that even an increase in the level of unemployment did little or nothing to assuage inflation. Professor A. A. Walters, of the London School of Economics, lecturing at Monash University on 26th July, 1971, said: "... the association of a raging inflation with record rates of unemployment, has been the most puzzling feature for both economists and the Authorities." He went on: "Alas, neither the classical economists nor Keynesians can produce predictions which even remotely approximate to those events which we now observe. There is perhaps more excuse for the failure of the classical economists since they were concerned only with the long run. For Keynesians there is no such excuse. They

purport to give a theory suitable for short run predictions and policy. Yet Keynesians have also failed to explain the cohabitation of those strange bedfellows inflation and unemployment." He concluded: "The lessons of the last twenty years are clear. The events are quite different from, indeed almost the opposite of, those described in the text books."

With over a quarter of a million Australians now unemployed and inflation again escalating, it is a tragedy that the well-paid economist in the Commonwealth Treasury, whose own employment is never threatened, so far show none of the honest humility apparent in Professor Walter's paper.

However, not all see the problem so much as one of 'dilemma' as one of 'deceit'. Economist Roger Randerson, writing in 1972 said: "It is entirely within the power of the monetary authorities to prevent inflation - and for Australia, Treasury and Reserve Bank are those authorities. No technical problem prevents them stopping inflation. Only a political problem, **although sedulous academic official propaganda causes most people to doubt both the above demonstrable truths.** We now have a 'Tiger by the Tail' largely because of the unsound approach to economics of Keynes and his followers, who are largely responsible for encouraging post-war inflation."

Writing in 1974, well known world economist Professor F. A. Hayek said bluntly: "The responsibility for current world-wide inflation, I am sorry to say, rests wholly and squarely with the economists, or at least with that great majority of my fellow economists who have embraced the teaching of Lord Keynes. What we are experiencing is simply economic consequences of Lord Keynes.

"It was on the advice and even urging of his pupils that governments everywhere have financed increasing parts of their expenditure by creating money on a scale which every reputable economist before Keynes would have predicted would cause

precisely the sort of inflation we have got. They did this in the erroneous belief that this was both a necessary and lasting effective method of securing full employment."

INFLATION A DELIBERATE POLICY

Unfortunately, there is direct evidence that some, at least, have grasped the fact that inflation is a useful weapon in the eradication of private ownership and the centralising of power, John Strachey, in his book *'Programme for Progress'* described inflation as 'an inevitable step in the right direction'. He gave graphic reasons why this was so, in that, once accepted as inevitable, more and more control was the ensuing result. Professor Graham Hutton, in his *'Inflation and Society (1960)'* wrote "... in Britain ... socialist economists have publicly advanced inflation as an economic method of expropriating the 'capitalist classes' or owners of property So far did dislike of private property and saving take Socialist thinkers that even in the late 1950s some of them still advocated expropriation by deliberate inflation, after lulling savers and investors into a false sense of security by intermittent periods of stable prices."

BACKGROUND TO THE PETERSEN PLAN

The only two periods this century when Australia has been free from inflation have been relative brief. The first was in the Depression, after 1½ million Australians had been thrown out of work.

The second was in the latter half of the war - **after wage and price controls had failed to stop inflation.** The technique was price subsidisation. Prices were held stable for four years, despite the enormous shortages inevitably caused by war.

At the end of the war, the Chifley government held a referendum on Wage and Price controls. The Constitution did not allow for such measures save through 'emergency powers'

which would not apply in peace time. Chifley - as Whitlam in 1974 - wanted permanent powers for Wage and Price controls. The electorate rejected this proposal. Against the protests of the Liberal-Country Party opposition, Chifley dismantled the Price subsidisation mechanism, under the erroneous belief that such a programme was impossible without the controls he had sought from the electorate. He was wrong, and the Opposition said so emphatically.

Inflation immediately started and was briefly to reach 20% in 1948. Capitalising on the shocked reaction in the electorate, the Opposition leaders - Menzies and Fadden - campaigned on a simple policy in 1949 strikingly similar to the Petersen Plan announced 25 years later. The basis of the election policy was reduced taxation, and a 'shillings back into the pound' policy, with the re-introduction of price subsidisation as the means of bringing this about.

The story of why the pre-election policy was never introduced, and the gradual erosion of the free society in the subsequent 23 years has been told elsewhere. It can be summed up by saying that the entrenched will-to-power in the Public Service, headed by the Treasury and the Reserve Bank, triumphed over the philosophy of the Coalition government, whose resolve was turned to expediency by the party obsession of 'survival at any price'.

THE RURAL CRISIS

Between 1965 and 1970 the attention of Australia was focussed on an intense rural crisis, which was, in reality the inevitable result of years of gradual inflation. The primary producer was at the end of the line, and had no means of passing costs on.

His survival depended entirely on a stable, and preferably a reducing cost structure. Instead, he was offered control, with

the inducement that this would enable him to pass his costs on in turn. This was the result forecast by Socialist John Strachey.

But its keenest advocates were now the very parties which had campaigned on 'putting the shillings back into the pound' in 1949. Reconstruction, more properly described in the vernacular as 'Get Big or Get Out', became the new Country Party philosophy. The new leader of the Party, Mr. Doug. Anthony, justified the new 'volte-face' by saying that it was a means of allowing uneconomic farmers to 'leave the land with dignity'.

Once embarked on such a course, it was obviously intensely embarrassing to be reminded of the 1949 promises. The objective of price subsidisation as a means of stabilising prices and stimulating consumption, which had been written in to the Party's National Platform, quietly disappeared, although never officially voted out.

In 1969 the booklet '*They Want Your Land*' was published, setting out the pedigree of ideas behind inflation, its effects on private ownership with particular reference to farmers, and outlining the ominous change of direction in the Country Party. The effect was instantaneous and dramatic. Thousands of copies moved into the rural community with a predictable result. Great pressure was put on Country Party members to explain the new direction. Many who had entered Parliament well after the 1949 election had no idea of the history behind the issue. For a short while the Party was in convulsion, and some desultory attempts were made to come to grips with the points raised.

The author was invited to give evidence before an inconclusive Management Committee meeting of the Party in Queensland, apart from addressing numerous Party branches. A host of resolutions to Federal and State members were usually passed to the Treasury for evaluation, with again, a quite

predictable response. In view of the fact that it was Treasury policy which was under attack, it was somewhat akin to Oliver Twist seeking justice from the Beadle.

THE POLITICAL ANSWER

In early 1970, the booklet '*They Want Your Land*' was attacked on the A.B.C.'s 'Country Hour' by Dr. Schapper, an agricultural economist from the University of Western Australia.

Dr. Schapper, who had previously advocated the movement of 100,000 Australian farmers from the land, had also had some connection with the Fabian Society.

Although answered, this was the start of a new turn of events in which an emotive attack was launched on the Australian League of Rights, with the most vicious allegations.

The objective was clearly to divert attention and discussion from the telling points on economic policy being made by the League and its division the Institute of Economic Democracy. In reality, these were no more than reminders of the Country Party's own policies in 1949 - now acutely embarrassing.

The attack on the League drew for the main part on material originally only peddled by fringe elements associated with the Communist Party. It was all material easily refuted when an opportunity was available to do so. Many rank-and-file members of the Country Party were disgusted once they had ascertained the facts.

In August 1971, at the South Australian State Conference of the Country Party, Mr. Doug. Anthony repeated allegations, without supporting evidence, that 'the League had tended to be anti-Semitic, pro Nazi and racialistic in the past'.

To its credit, the Queensland Country Party disassociated itself from Mr. Anthony's remarks and Mr. Anthony subsequently modified his statement, although this was never

reported in the media. The charges, and the widespread and indignant reaction produced some heated meetings in all States. Although fully answered, the controversy did succeed in diverting attention from the Country Party's new economic policies, and the rural crisis persisted.

In the *'Armidale Express'* (19th February, 1971) Mr. Ian Sinclair, Minister for Primary Industry, gave his reasons for opposing consumer subsidies: "Let's just look at what exactly is involved in consumer price subsidies as I understand it. As far as the level of assistance that is given to buying of commodities, if you are going to help people to buy more butter, to buy more wool or wheat, or fruit, then the producer is going to benefit. But if the amount of goods sold is not substantially increased because you have provided some sort of consumer price subsidy, but instead people are going to have more residual income available for spending, either on poker machines or perhaps in consumer durables, or perhaps luxuries of one sort or another, you are not going to help producers a lot, you are rather going to add to inflationary pressures."

Subsequent disclosures in consumption of meat and dairy products were to make Mr. Sinclair's words ridiculous.

His colleague Mr. Anthony, in an effort to counter the argument, circulated hundreds of copies of an extract from the Report of the New Zealand Royal Commission on Monetary Banking and Credit Systems (1955) which claimed to be a refutation of the Social Credit analysis of economic policy in New Zealand, and particularly that there was a shortage of purchasing power in the community.

Two things can be said about this extract. No representative from the Social Credit Secretariat - the only accredited body to speak on C. H. Douglas' proposals - gave evidence. Whoever spoke in the name of Social Credit did so without authority. Secondly, Mr. Anthony, if he intended to be

objective, should also have referred to the Tasmanian Government Select Committee enquiry into the Monetary system held some years earlier, which came up with findings opposite and contrary to the New Zealand enquiry.

Country Party member Ralph Hunt was somewhat more objective. writing to one of his constituents on 5th July, 1971, he said: "I am aware that the Country Party organisation in Queensland has invited Australian League of Rights speakers to give evidence before an appropriate committee, but so far as I know this has not been done in N.S.W.. However, as a member of the Party, I see no harm in you putting this proposal to the General Secretary of the Australian Country Party so that there may be a full and useful discussion about the matter." Such a step, however, never eventuated.

However, the forces in the Treasury were anxious to prevent any objective examination of its policies, and in an unprecedented move, issued its own statement attacking the League. That a Government Department should have entered directly into a political controversy on its own behalf was absolutely reprehensible, but there was no protest from parliamentarians.

The '*Toowoomba Chronicle*' (6th January, 1972) carried the attack which also appeared in a considerable number of other papers.

TREASURY SLATES LEAGUE'S FINANCE POLICY: 'A CHIMERA'

Canberra (A.U.P.) - The 'quick and easy' solution to the problems of the Australian primary producers, as propounded by the Australian League of Rights, are 'nothing but a chimera', according to a document presented to the Commonwealth Government.

The confidential Treasury assessment of the League's financial policies - including 'interest free credit' - has been prepared following an attack made recently on the League's policies by the Deputy Prime Minister and Country Party Leader, Mr. Anthony.

Mr. Anthony has denounced the League and warned country people from becoming involved in the movement which he said was trying to capitalise on the serious difficulties in which country people found themselves.

He has said the League of Rights is trying to 'horn in' on the Country Party's own objectives and is using the party to 'push its own views'.

Mr. Anthony has warned country people that the League's theories of the creation of credit, if put into effect, cannot be other than inflationary.

He has expressed the hope that Country Party members will not become associated with 'this extreme organisation or allow themselves to be used by it'.

INFILTRATION

Since Mr. Anthony's denunciation of the League, reports received by the Federal headquarters of the Australian Country Party indicate that members of the League are infiltrating many branches of the Country Party in Queensland, northern New South Wales, eastern and western Victoria and in the newly-formed Country Party organisation in South Australia.

The recent meeting of the A.L.P. Federal Executive in Townsville alleged that members of the Country Party in the Federal and State parliaments were dominated by the League. The Executive described the League's policies as being based on the Nazi Party's.

The Labor denunciation has been followed by disclosures that League members have infiltrated Country Party branches in the following Federal seats held by the party: Maranoa (Queensland, held by Mr. J. Corbett), Kennedy (Mr. R. C. Katter) Fisher (Sir Charles Adermann), McPherson (Mr. C. E. Barnes, Minister for External Territories), Gwydir (New South Wales held by the Minister for the Interior, Mr. Hunt), Calare (Mr. J. E. England), Hume (Mr. J. A. Pettitt), Gippsland (Victoria, Minister for Shipping and Transport, Mr. Nixon) and Wimmera (Mr. R. S. King).

The Country Party holds no seats in South Australia, but the League has infiltrated branches in Grey and Barker.

The New South Wales branch of the Country Party has declared that membership of the League of Rights was incompatible with the best interests of the Country Party.

A report on the League's activities within the Country Party organisation is being prepared for the next Federal Council meeting of the party.

IN COUNTRY PARTY POSTS

According to Country Party M.P.'s and Senators, League members hold official positions in many Country Party branches.

In its assessment of the League's financial policies, the Treasury document states that the policies are basically that of the discredited and outdated Social Credit movement.

It says the League believes in financing public expenditure out of 'interest free credit' - the use of the note-printing presses instead of the traditional means of taxation and the issue of public bonds.

The document says: "There is no denying the appeal of such a programme. It offers something for nothing and appears to point to a very painless way of achieving our national objectives. But the fact that no responsible government anywhere finances its spending in this way cannot be put down to mere wilfulness.

"If the 'social credit' philosophy were to be believed, governments would have everything to gain and nothing to lose by following its precepts as an alternative to the unpopular orthodox means of financing via taxation."

The document says that one of the proposals put forward by the League as a panacea for inflation is the introduction of so-called 'consumer subsidies'.

'A BURDEN'

But the document adds these subsidies would become an increasingly costly burden on the budget and were only part of a very comprehensive and wide-ranging system of controls over many aspects of economic activity, including price control, rationing and manpower controls which can only be imposed by the Commonwealth under the defence power and would be unconstitutional under the present circumstances.

The document points out that experience strongly suggests that while subsidies and controls may mask inflation for a short time they do nothing to combat its fundamental causes and is thus bound to break out in even more virulent form once the controls are lifted. The conclusion to the document states that it is a pity that the 'Social Credit' movement (the League) seems to be gaining ground in some sectors of the rural community and adds:

"Those who are hurt by low prices for wool and other commodities cannot be blamed for desperately casting about for

solutions for a problem which (to face the facts) is essentially outside our control, even though it can be alleviated, and is being alleviated, by appropriate Government policies. 'The quick and easy solution' offered by the League of Rights and others of the Social Credit persuasion is nothing but a chimera."

It was left to *'The Australian'* in its editorial of 11th January, 1972 to speak out where the politicians were silent: "... The longer a Government stays in power, the more it takes those trappings for granted. But when it uses the nominally apolitical public service for rank political tasks, it is time that we re-examined our judgement of what should be reasonable on this issue and what should not. The matter arises now because of two cases of politics mixing with the Federal Public Service: Mr. R. J. Ellicott's staying on as Solicitor-General after declaring his ambition to be a candidate at the next election, and the Country Party's use of the treasury to propagandise against the League of Right's financial policies ... the League of Rights case is not the first instance of the Treasury being used against non-Government argument ... When the Public Service is drawn into the private - and often rather nasty - affairs of political parties, it is open to manipulation from outside."

INVIDIOUS TREASURY - PARTY NEXUS

Apart from this impropriety, the whole statement was one which cast grave doubts on the Country Party's role. It was not explained how a so-called 'confidential' Treasury report was circulated to the Press. It was not explained that what the statement called 'infiltrators' was, in fact, a considerable number of people who had been in the Country Party for many years, and were advocating the traditional policies of their Party. And finally, one of the so-called economic policies imputed to League was, in fact, a policy which the League had warned against! The League has never advocated the financing of public expenditure out of 'interest free credit'. It had, in fact, stressed

that any new credit should be spent by the private citizen rather than through 'public expenditure'.

It was all too reminiscent of a criticism made three months earlier, by Queensland President of the Country Party, Mr. R. L. Sparkes, in two full-page articles to the '*Queensland Country Life*' (14th and 21st October, 1971) He said: "... Leaders of the League engage in much impressive and often emotional rhetoric that is more notable for sound effects than substance. When taxed to spell out in precise terms, the nature of their solution, they engage in further evasive waffling which generally all boils down to a scheme for consumer price subsidisation and the creation of much interest-free credit to pay off primary producers' debts." Again, the fact that the last suggestion had never been advocated by the League did not deter Mr. Sparkes.

There is little doubt, however, that a failure to face up to the issues behind the controversy - inflation, centralisation, increasing taxation and the rural crisis - was the reason for the swing against the coalition government in December, 1972. It was not, on the whole, a vote for Labour. It was a vote against the Liberal Country Party Government.

NO CHANGE OF DIRECTION

However, the change to the A.L.P. did not mean any change in the replies on the question of price subsidisation. All that happened, in essence, was a different signature appended to the stereotyped replies now monotonously produced by the Treasury. Typical was a reply dated 4th July, 1973 to the queries from the Queensland Farmers' and Grazier' Association, under the signature of Mr. F. E. Stewart, the A.L.P. Minister assisting the Treasurer:

"The use of Reserve Bank Credit to finance price subsidy schemes, the partial abolition of sales tax or a lower structure of

interest rates would have serious consequences emanating principally from the increase in the volume of money which would be involved. Such an increase in the supply of funds, and hence purchasing power in the economy, without any corresponding increase in physical resources of production, could only lead to an intensification of existing inflationary pressures. If these adverse effects were to be avoided, the Government would have to finance the schemes by increases in other taxes, or by reduction in other areas of government expenditure. In addition to the above financial considerations, it seems highly unlikely that any price subsidy or partial tax abolition scheme would be successful unless accompanied by a rigid system of price controls and rationing such as that employed during and after the second world war ..."

From a Government which increased the volume of money by 20% in each of its three years in office, this was a ludicrous reply. It was an obvious misconstruction of the suggestion that **existing credit creation** could be used in a **different** way - a way which would take costs **out of** prices, instead of inflating them.

By early 1974, it was already obvious that the Labor Government was merely accelerating down the same road as its predecessor. Taxes and inflation were escalating alarmingly. Unemployment was also growing.

ADVENT OF THE PETERSEN PLAN

The June 1974 Premiers' Conference was held in deteriorating national economic circumstances. It was at this Conference that the Queensland Premier first announced his proposals - subsequently to become known Australia-wide as 'The Petersen Plan'. To avoid misconstruction this is described in the Premier's own words in the form in which it was officially submitted to the Premiers' Conference.

SUBMISSION TO PREMIERS' CONFERENCE

(Text of a submission put before the Premiers' Conference in June, 1974 by the Premier of Queensland, the Hon. Joh Bjelke-Petersen, and which urged the Commonwealth Government to adopt what later became known as 'The Petersen Plan')

WAGES AND PRICES

(Sales Tax, Consumer Subsidies, Production incentives)

The Consumer Price Index is a quarterly measure of variations in retail prices for goods and services representative of a high proportion of the expenditure of wage-earner households. The C.P.I. includes five groups -

Food
Clothing and Drapery
Housing
Household Supplies and Equipment
Miscellaneous

and is based on representative items in each group. These items are selected to show the price movement in each group.

These groups comprise -

Food: groceries, dairy produce, meat, vegetables and confectionery.

Clothing and Drapery: most articles of clothing and footwear, piece goods and household drapery.

Housing: costs of home ownership, allowances for private and government house and private flat rents.

Household Supplies and Equipment: fuel and light, household appliances, kitchen utensils, furniture and floor coverings, garden tools, household sundries, medicines, toilet supplies, school requisites.

Miscellaneous: fares, private motoring, dentists, doctors and hospital services, health insurance funds, smoking, beer and other sundry costs for services.

Inflation, in the context of wages and prices, is simply due to an unrestrained contest between them and without regard to their real values and functions. Wages should reflect productivity which in turn should reflect wages. Prices should reflect costs including capital costs of the means of productivity.

The unproductive component of both wages and prices is taxation. As both income tax and sales tax are sliding scale or percentage-added taxes, each leap-frog movement forward by either wages or prices is amplified by the taxation factor - thus, the higher inflation goes, the greater the wages-prices gap.

The simple answer, within the Australian economy, is to freeze taxation. A more forceful step must surely be to reduce or eliminate sales tax. Such action would do more in one stroke to put value back into the dollar than any rash of tariff cuts, restrictive credit controls and so on.

With the quality of life that Australians should be able to expect, the items contained in the Consumer Price Index are all ones which wage-earners have a right to strive for - food, clothing, their own homes, furniture, household appliances, refrigeration, television and so on and their own transport etc..

Many of these items are subject to sales tax - not only just sales tax but ever-increasing sales tax -

Food:	Generally exempt (except e.g. cakes and confectionery)
Clothing:	Generally exempt
Building Materials for housing:	Generally exempt
Furnishings and Appliances (refrigerators, washing machines etc.)	- 2.5%

Radio, Television, Record Players - 27.5%

Cars - 27.5%

Accessories - Generally 15%

(Total Sales Tax Revenue in 1972/73 was \$765 million.)

The Commonwealth Government claimed it was necessary to increase taxation to reduce spending power (another word for 'wages') in the hands of the public. It would be simpler to put value back into the dollar by reducing or eliminating the substantial tax-slice which is presently part of every dollar spent. If the Commonwealth Government had any genuine intent to combat inflation, it should surely be looking in the direction of tax reduction, consumer subsidies and production incentives rather than in its encouragement of higher wages, higher prices and higher taxation.

The Commonwealth Government, by its policies, has made the wage and salary earners more determined than ever to seek higher wages and incomes in order to counter the tight money situation that has developed. Sales tax and income tax add to excessive cost increases because the higher wages, costs and prices go, the higher income tax and sales tax go.

Any government contributing to this situation must have a vested interest in inflation because the higher the costs of goods go the more the government gets.

We must not think in terms of making the individual carry the burden of attempting to retain a reasonable standard of living.

What is referred to as cost-push inflation relates to the tremendous pressure widening the gap between what an item costs to produce and what people ultimately pay to buy it. The gap is widening very rapidly because of the increased amount of sales tax and general income tax that flows from it. As the price of goods increases so does the indirect taxation automatically

increase. The cost of rail freights and other charges increase. Then sales tax increases again. Inflation is not reduced and the cost of living is not brought down by taking away forms of assistance, such as the superphosphate bounty. Whilst this bounty provides assistance to primary producers, on the other hand, it also provides assistance to consumers by keeping the prices of foodstuffs down.

During the Second World War, and after, consumer support subsidies played a very important part in stabilising the economy and created a favourable situation when it could have been expected that there would be a period of serious inflation which would cause great hardship to many people. These forms of assistance have proved to be a stabilising factor.

When people have attained a certain standard of living, they want to continue that standard of living. When it is made difficult for them to do so workers demand higher wages and producers demand better prices for their commodities.

These demands would be reduced drastically and inflation would be decelerated if the Commonwealth Government adopted three approaches, namely:

- 1. The freezing of the aggregate collection of income tax at the existing level.**
- 2. The reduction or elimination of sales tax on items in the Consumer Price Index groups.**
- 3. The payment of producer incentives or consumer subsidies on the foodstuffs components in the Consumer Price Index.**

Canberra, A.C.T.
June, 1974

Joh Bjelke-Petersen
Premier of Queensland

The first essential is to notice the modesty of the Premier's proposals. But the very unexpectedness of proposals from a Country Party Premier similar to those which had caused such convulsions within the Party in the previous three years, produced in turn a new set of problems. They could hardly smear the Premier in the terms used earlier against the League of Rights. Moreover, his forthright attitude on a number of matters ranging from external affairs to inflation had set the Queensland Premier apart from his politically anaemic colleagues as one of the most popular vote-winners in Australia.

But Federal Country Party leaders had gone too far to come out openly in support of their own one-time policy - price subsidisation. The result was an even more fantastic double-shuffle than displayed during the earlier conflict. Mr. Anthony in particular, shifted and hedged on previous arguments. A letter dated 16th September, 1974 was typical:

"I believe that the Government should be using taxation policies more fully in the fight against inflation. By this I include reduction of income tax, and where possible reduction in sales tax collections. I do not believe it is possible to completely freeze income tax collections or to abolish sales tax as this would result in a huge loss in revenue and limit the many benefits and services available to the community. I also have severe reservations about consumer subsidies as they subsidise all consumers of particular commodities regardless of the financial circumstances of the consumer. Many people in the United Kingdom where consumer subsidies have been tried, are now making these points and are looking at some other form of price reduction. You will appreciate from this letter that I am in broad agreement with Mr. Bjelke-Petersen's objectives and I always relate in each case to the method of achieving these objectives and the degree to which they can be achieved."

This was a clear case of trying to run with the hare and hunt with the hounds! How can one advocate a **reduction** in

taxes, while suggesting that it is not possible to freeze them? Only by using a new type of 'double-speak' which was to be used more and more in the following months. In treasury jargon, a 'reduction' in taxes does not mean what it says, but means 'a lessening of the rate of increase', instead!

CHANGING TACK

Mr. Anthony had also changed his argument on consumer subsidies. No longer did he argue that this was impossible without price controls, but now criticised the measure because it apparently benefited everyone, and not just low income groups! To justify this, Mr. Anthony circulated hundreds of copies of an article from the *'Sunday Times'* (London) of 8th September, 1974. It was an inconclusive article to say the least, and included a set of figures to show how price subsidies had in actual fact held prices down.

Perhaps the funniest example of preconditioned bigotry came in November, when the Australian Wool Growers' Council, at its 124th Annual Convention in Sydney, rejected a motion of support for the Petersen Plan, because 'it followed the League of Rights propaganda!' This was faithfully reported in the *'Queensland Country Life'* of 21st November, 1974, producing a momentary laugh in the otherwise serious inflationary crisis!

More serious, however, was a quite open admission of censorship through the A.B.C., when Mr. Robert Moore conceded that he had edited references to the Petersen Plan out of a 'Monday Conference' programme in which the A.L.P. Minister for Primary Industry, Senator Wreidt, was the guest. Shortly after, the Minister wrote to *'Queensland Country Life'* with an explanation that it was the A.B.C., rather than himself, which was responsible for editing reference to the Petersen Plan from the programme!

In December 1974, the Queensland State Election was held, resulting in a massive swing of 16% in favour of the Bjelke-Petersen Government. To achieve such a swing when already in office was exceptional indeed. The result was quite predictable. Federal Coalition members tumbled over themselves to get on the Bjelke-Petersen bandwagon. Quite a few backbenchers came out in support of the Petersen Plan, although a few qualified this by indicating such support 'in principle' - whatever that meant.

BACK ON THE FENCE

However, as the Petersen Plan became a major factor for discussion in rural areas throughout Australia, Federal Politicians began to grasp the implications of committing themselves too far. Once again, some amazing wriggling took place. The first incredible tactic was to deny that the Queensland Premier had, in fact, put such a plan forward.

Typical was a letter from Mr. Bruce Lloyd, National Party member for Murray in Victoria, dated 18th November, 1975: "... I am not prepared to support the so-called 'Petersen Plan' because I believe it will not work, and in fact I believe the Premier himself does not support it. ..."

At a Liberal Party rally in York, Western Australia, on 20th November, 1975, the W.A. Premier, Sir Charles Court, when asked to comment on the Petersen Plan, stated that Mr. Bjelke-Petersen looked on the whole thing as a bit of a joke, and was in fact rather embarrassed at having his name connected with it.

And, to add insult to injury, in a special question and answer article in the W.A. *'Farmers' Weekly'* on 2nd October, 1975, Mr. Anthony included the following outrageous statement:

Q. "What is the policy of your Party with regard to the economic plan put forward by the Premier of Queensland, which is commonly known as the 'Petersen Plan'?"

A. "As I explained, the so called Petersen Plan comprises a number of separate policy papers by the Queensland Premier over a period of time, most of which I wholeheartedly support. **However, the attempt by the League of Rights to collect all the Premier's statements into a package and add one or two of their own to it, and label it as the Petersen Plan does not have my support. The main part of their policy is for food subsidies which I disagree with.** Food subsidies in England have failed. The best way to subsidise the price of food to the consumer is by assisting the primary producer in limiting the cost of imports, such as superphosphate." (Emphasis added)

This quite deliberate misrepresentation showed Mr. Anthony in a light not far removed from Dickens' 'Artful Dodger'.

A little earlier in the year there had been a development of major significance. The collapse in the cattle industry had brought domestic retail prices for meat down, **with a resultant 50% increase in domestic meat consumption. The size of this increase in home consumption was bigger than all our beef export markets combined.** This made a mockery of Primary Industry Minister Ian Sinclair's remarks in 1971 (referred to earlier) that a drop in prices would not increase consumption. The evidence on dairy produce is even more striking, Australia being one of the lowest per capita consumers of butter and milk in the western world.

Mr. Anthony himself, in a letter dated 25th February, 1975 wrote: "... There are many groups within Australia such as

pensioners and even the general public who would benefit immensely from some sort of government subsidised sale of meat. ..." and again, in a further letter dated 4th March: "... I think that the subsidisation of meat sales to pensioners and other needy groups would be a practical form of assistance on the part of the government which would also be a considerable help to the Australian beef producer. ..."

But even with such evidence, Mr. Anthony had not the courage of his convictions, and subsequently wrote in a letter to the '*Queensland Country Life*' (5th June, 1976): "I noticed in '*Queensland Country Life*' of 22nd May a letter concerning my attitude to Consumer Subsidies, and in particular to subsidising beef sales in Australia. A letter I wrote ... on 25th February has been interpreted as a suggestion by me that beef sales should be subsidised to the Australian consumer. Perhaps I did not choose my words carefully enough, but the interpretation placed on my letter is not correct. ..."

In answer to Mr. Anthony's misrepresentation of the Petersen Plan in the '*Farmers' Weekly*', the Queensland Premier replied with a personal letter to the paper on 14th November, 1975, which put the matter beyond any doubt at all.

This letter is as follows:

The Editor,
The Farmers' Weekly
Perth W.A. 6000

Dear Sir,

I have noted with increasing interest the comments made by your readers concerning the Petersen Plan. Permit me the liberty of expressing my thoughts on this concept, and what can be accomplished through such a Plan for the well being of all Australians.

The Petersen Plan, initially proposed by me at the June 1974 Premiers' Conference, consists of three major proposals. They are:

1. The freezing of aggregate collections of income tax at the existing level.
2. The reduction or elimination of sales tax on items in the Consumer Price Index.
3. The payment of producer incentives or consumer subsidies on foodstuff components in the Consumer Price Index.

Since proposing this Plan, I have been surprised at the support I have received not only from the people of Queensland, but from people right across Australia.

People see in the Plan a means of reversing the disastrous economic policies followed by the Whitlam socialists which have produced record inflation, record unemployment, record business failures, record waste and record taxation.

The Plan acknowledges the inflationary impact of taxation upon Australian family budgets, and the need to stabilise prices so that those on low and fixed incomes are not penalised by Labor's socialist policies in its pursuit of financial management.

The only recourse open to Australians is to keep the Whitlam socialists out of office as wreckers of economic prosperity so that a responsible Commonwealth Government can set about repairing the national economy.

The Petersen Plan is as good a point at which to start as any economic measure yet proposed, since it is framed with people in mind, not insensitive machines or selfish pressure

groups. It underlines basic free enterprise assumptions and strikes hard at basic socialist-communist ideologies which are today doing so much to wreck our economy.

The first two Petersen Plan points identify taxation as an unproductive component of both costs and prices. Because both income tax and sales tax are sliding scale or percentage-added taxes, each leap-frog movement forward by either costs or prices is amplified by the taxation factor - thus the higher inflation goes (presently an unprecedented 16.9% - June quarter), the greater the cost-price gap.

The devastating effect of this sliding scale tax on a free economy can readily be seen during a period of steeply rising inflation as we now have in Australia and which is generated by socialists embracing foreign economic ideals.

Obviously, the simple solution is to freeze taxation. A more forceful step must surely be to reduce or eliminate some sales tax. Such action would do more in one stroke to put value back into the dollar than any rash of tariff cuts or restrictive credit controls.

It is again most obvious that the items contained in the Consumer Price Index are one for which wage-earners have a right to strive - food, clothing, their own freehold homes, furniture, household appliances, refrigeration, television and their own transport. Many of these items are subject to sales tax - not only just sales tax but ever-increasing sales tax.

It must be obvious to any responsible taxpayer that it would be far simpler to put value back into the dollar by reducing or eliminating the substantial tax-slice which presently is part of every dollar spent as it is to consistently inflate such prices through government intervention.

If a Commonwealth Government has any genuine intent to combat inflation, it should surely be looking in the direction of tax reduction, consumer subsidies, and production incentives rather than following the disastrous Whitlam policy of encouragement of higher wages, higher prices and ever escalating taxation.

Obviously, sales tax and income tax add to excessive cost increases because the higher wages costs and prices go, the higher income and sales tax go. Nobody wins with inflation.

Any government contributing to this situation must have a vested interest in inflation because the higher the costs of goods go the more the government gets.

Just consider these figures. The Commonwealth's total general taxation revenue in 1972/73 was \$8,453 million, but since then the Whitlam socialists have so escalated taxation, assisted by inflation on graduated wages scales, that it budgeted (1975/76 year) for \$17,608 million, or more than double that collected just three years ago! Even this is not enough, for their plans were to go into debt to the tune of \$2,798 million!

This means that Mr. Whitlam doubled taxation costs for the average taxpayer, and placed Australia into debt for decades to come. How inflationary can the former Prime Minister get, and still ignore the fires of economic chaos raging within Australia?

As for subsidies, they are not simply an aid to the producer of goods. They are also an essential factor in stabilising prices in the national interest for consumers who find it difficult to keep ahead of inflation.

In the past, it has been national policy to maintain stable prices for consumers because such stability was to be preferred to the instability caused by inflation. In Australia, such a policy

assisted us through the war years while in New Zealand, a similar policy has ensured consumers the most stabilised dairy products in the world.

I might add that inflation is not reduced and the cost of living is not brought down by taking away forms of assistance such as the superphosphate bounty. While this bounty provided assistance to primary producers, it also provided assistance to consumers by keeping the prices of foodstuffs down. Again obviously, consumer subsidies are a stabilising factor during inflationary periods.

Now, when people have attained a certain standard of living they rightly desire to continue that living standard. When it is made difficult for them to do so through such non-productive factors as graduated taxation, interest rates, hidden charges, etc., workers demand higher wages and producers demand better prices for their commodities.

This is why I believe that the Petersen Plan will substantially stabilise many of our inflationary problems which are threatening to overwhelm us and which, if not checked, will lay the foundations for greater disruption to come.

It is a situation which I am sure a Fraser-Anthony Government will solve.

Yours sincerely,
Joh Bjelke-Petersen
Premier of Queensland

14th November, 1975

In view of the foregoing letter, it is to be hoped that Federal National Party politicians no longer claim the Petersen Plan to be an invention of the League of Rights!

Added weight to the concept of a price subsidy on meat for Australian consumers was given by the President of

Queensland Housewives, addressing cattlemen at a beef sire field day. *'Queensland Country Life'* reported her as follows: "Mrs. Horan said the cattle price slump had put plenty of beef back onto the Australian dinner table. But she feared that when cattle prices increased, beef would rapidly become too dear for the average family to buy. This was where a consumer subsidy should come in. Mrs. Horan said the Federal Government was subsidising beef to Russian consumers but not to Australians. ..."

CRUCIAL 1975 ELECTION

Three years of Labor rule in the Federal sphere had accelerated the nation's decent down the slippery slope of ruin. The nation was back where it had been in 1948, with even greater dislocation in the economy and a much greater centralisation of power. Would the Opposition, now led by Mr. Fraser, be able to lead the country out of the mess? The answer depended on its resolution in over-ruling the entrenched power structure of the Treasury and Reserve Bank.

On 27th August, 1975, *'The Australian'*, under the heading 'Fraser pledges \$2,500 million tax cut' reported Mr. Fraser's reply to the disastrous Labor budget, which had increased taxation by over \$3,500 million, and brought in a deficit of \$2,798 million on top.

The day before the Election (12th December, 1975) Mr. Street wrote, on behalf of the interim Prime Minister Malcolm Fraser: "The Liberal and National Country Parties have consistently advocated reductions in taxation. Tax compensation has become a significant element in the wage bargaining process and has contributed to the current cost-push pressure in the economy. We are not, however, in favour of consumer credit or subsidies as an anti-inflation policy."

Mr. Street went on to say: "Consumer subsidies could be positively harmful. One of the basic advantages of the free-

enterprise system which we support is that consumers are directly confronted with the real cost of the goods and services that they freely choose to buy. This places a premium on efficient production in relation to effective consumer choice. Consumer subsidies would introduce a significant distortion into the free enterprise system because consumers would then exercise a choice based on prices that no longer reflected the real cost of the goods and services provided. This would therefore, detract from the economic benefits of the free enterprise system. Moreover, a system of consumer subsidies would necessarily entail some degree of arbitrary choice as to the particular goods and services to be subsidised thereby giving rise to additional distortions in the allocation of resources. The alternative to consumer subsidies - tax indexation - would improve economic efficiency rather than reducing it."

If Mr. Street really believed his own premise, he would have to argue that all indirect taxes should immediately be removed so that they no longer distorted 'the real cost of goods and services' so essential in a free enterprise system.

Furthermore, he should have studied the way in which war time consumer subsidies were applied so as to avoid 'arbitrary choice'.

But at least he advocated 'reductions in taxation' - which forces one to wonder what Mr. Street's reaction to the first budget brought in by his Government in which taxation increased by over \$3,000 million! In view of the whole disparity between pre-election promises and subsequent performance in the field of taxation, perhaps the Fraser Government should have been subjected to the recommendations of a Melbourne economist, Dr. Duncan Ironmonger, when addressing the Institute of Directors in March. Reporting his speech, *'The Australian'* of 18th March, 1975 said: "The suggestion that the Federal Government be forced to bring a national taxation case each year in the same way as the trade

unions brought a national wage case was greeted with laughter and applause. 'Perhaps we should have a taxes justification tribunal and the Government would have to lodge notice of its intention to increase taxes and then you people and the trade unions could intervene and argue for or against the increase' Dr. Duncan Ironmonger said. While these suggestions were somewhat facetious, it was important that government power to increase taxation was not allowed to go on unbridled."

TREASURY OVER-RIDES GOVERNMENT

It is now quite clear that the Treasury has triumphed over Government policy, just as it did after the Liberal-Country Party victory in 1949. The limited range of options allowed the politicians by the Treasury, within the framework of traditional Keynesian economics, is little more than window-dressing, and there has in reality been no change of direction.

The fact that the fiscal measures which Keynes advocated have no relevance to existing problems, as Professor Walters rightly pointed out, has not deterred Treasury one whit. With a quarter of a million unemployed, industry running at less than 70% capacity, a housing crisis, an intense rural crisis in both Dairy and Beef Sectors, sagging confidence in secondary industry and a million Australians living in poverty, the Treasury has forced even more draconian measures on a government seemingly emasculated of any real will or integrity. The same abstract economics theorising, by unelected bureaucrats who are cushioned against the effects of their own policies, is intensifying a similar type of crisis in New Zealand, South Africa, Canada, the United States, Great Britain and the E.E.C. countries.

Faced with the failure of their own policies, even harsher methods are used, producing endemic and ever-increasing unemployment. But so great is the escalation of financial (as opposed to real) costs, that even this infliction does nothing to curb inflation. Thus ever-increasing credit creation is used to

fuel the cycle, introduced either as wage increases, or to increase government expenditure.

The idea that a more moderate credit creation policy could be used in a novel or different way - namely to reduce taxes and prices - thus gradually relaxing the pressure on all sectors without penalising anyone, strikes right at the heart of the matter - the will-to-power of those currently devising economic policy, who, for whatever reason, cannot conceive any validity in a reduction of their own power and control. They are fearful of more freedom in the community. 'Progress' to the abstract planner is the result of manipulation of factors according to mathematical formulae. That all factors are flesh-and-blood people - often injured beyond all reason by economic policies - is beyond bureaucratic comprehension.

Modern politicians, with few exceptions, no longer really represent anyone. Morally emasculated by the 'collective conscience' of party politics, and over-generous perks and salaries, they play like children with the limited number of bricks provided by a contemptuous and arrogant bureaucracy.

When goaded beyond endurance, the electorate throws one lot of children from the nursery, and another class occupies the premises for a while. The bricks are the same, and the bureaucratic nursemaid never changes. But this can only go on for so long. Nothing is so dangerous as the induced belief that one can put off the moment of truth forever.

As Marx predicted in the Communist Manifesto, free enterprise cannot survive progressive taxation and a state monopoly of credit. Union-bashing, or industrial confrontation do not touch the basic problem.

INVERTED ROLES

As 1976 progressed, support for the Petersen Plan increased. Dealing with the second of his three proposals, the Queensland Premier said in a press statement in May:

"The tide is growing for an immediate attack on Sales Tax. During the last week alone, Dr. Duncan Ironmonger, Executive Director of the Melbourne Institute of Economic and Social Research, Queensland consulting economist Mr. H. W. Herbert and Mr. Justice Isaac, a former professor, have rallied their voices behind calls for cost reduction initiatives.

"Mr. Justice Isaac believed that the reduction of Sales Tax and government charges would both feed lower prices into our stagnant economy, while increasing consumer spending. Dr. Ironmonger stated the Consumer Price Index could be reduced to almost nil by reducing Sales Tax. Mr. Herbert has endorsed and urged these initiatives as far more effective than other slower and uncertain processes close to the heart of Canberra's economic planners.

"He believed the annual rate of inflation would be slashed from 12% to about 4% if the Commonwealth cut sales taxes, postage and telephone charges by enough to reduce next quarter's price increases from 3% to just 2%."

In the same month, the Metal Trades Industry Association of Australia advocated trading wage moderation for tax reductions and other incentives, including price subsidies on foodstuffs.

However, the Treasury was having none of it, and on the 17th March issued a circular and a sample letter to all Government members and Senators on how to answer letters from constituents on the Petersen Plan.

In May, even Mr. Bob Hawke had put a suggestion before the A.C.T.U. that wage moderation should be traded for tax cuts, but this was immediately opposed by the Left Wing. The revolutionaries wanted no abatement of financial policies which would ultimately drive the moderates into the hands of the militants.

Finally, in the latter part of the year, the Leader of the Opposition, Mr. Gough Whitlam, advocated cuts in Sales Tax as part of an overall package deal.

It is an irony indeed that the Fraser Government, which campaigned on a policy of tax reduction in 1975, should be fending off the same suggestions from the Socialist Opposition! Almost as ironical as the statement from the Treasurer Mr. Lynch a week or so after he had increased taxes by over \$3,000 million in the Budget, that Australians were overtaxed!

THE CYCLE MUST BE BROKEN

The 'vicious cycle' in Western economies is well known. It matters little where it starts. Rising prices force the wage earners, through their unions, to demand a wage increase. If the application is successful, industry is ordered to pay a new award. This is financed through short-term loans from the Banking system, and becomes an increased overhead only recoverable by price rises. Any industry unable to recover such costs by price increases goes out of business.

From the new award, Government immediately claims its share in taxation, while the price rise takes care of anything left over. It is not long before the wage earner makes another application for a wage rise. Indexation does nothing to alter the basic factors in this cycle.

But in the process, the nation's money supply is expanded - in the form of loans to industry - to finance new wage awards.

Thousands of millions of new dollars - largely in credit form - are pumped into economies. Any sort of 'squeeze' in banking policy merely serves to produce stagnation without alleviating existing factors.

Unless new credit is introduced into the economy in a way which increases purchasing power **without** adding to overheads recoverable only in price rises and inflation, there is no way out of the cycle. It must, sooner or later, break down altogether, with enormously destructive results.

The Petersen Plan is a starting point in a new direction. It is a challenge to a 'status quo' now unbelievably destructive. It is an idea whose time has come.

BOB HAWKE MOVES TOWARDS THE 'PETERSEN PLAN'

A.C.T.U. MAJORITY SUPPORT FOR WAGE PAUSE

By Malcolm Colless

THE President of the A.C.T.U., Mr. Hawke, was on the verge of winning majority support from the A.C.T.U.'s 18-member interstate executive last night for a plan to salvage the economy.

The plan, raised at the executive's week-long meeting which began in Melbourne yesterday, involves cuts in indirect taxes, tariff reduction and a pause on wage and price rises.

Mr. Hawke has support from employers for his request to the Government to cut indirect taxes as a major move to boost the economy.

He put forward a plan to the Government in June involving indirect tax cuts, but was severely rebuffed in any wage restraint trade-off by the powerful left-wing unions.

Last night, however, it appeared that he had won over the support of the six left-wing delegates on the executive for his economic proposal.

'The Australian'
7th December, 1976

