

POLITY AUSTRALIAN

There are Many Things More Important than
Working

The need for a pro-family taxation policy in Australia

The Impact of Technology on Government
Why we need to keep pace in the area of Gambling Reform

Reforming Australia's Industrial Relations system
for the Next Generation

Implementing a better system to get young people into work

Submarines and Ships
Australia's Future Defence

Achieving Value for Money in
Commonwealth Procurement
The role of "reverse tariffs" on Australian companies



“In every state, not wholly barbarous, a philosophy, good or bad, there must be. However slightly it may be the fashion to talk of speculation and theory, as opposed (sillily and nonsensically opposed) to practice, it would not be difficult to prove, that such as is the existing spirit of speculation, during any given period, such will be the spirit and tone of the religion, legislation, and morals, nay, even of the fine arts, the manners, and the fashions.”

- Coleridge, *Essays on His Own Times*.

As Coleridge observed, every age is the subject of a prevailing philosophy. There are many elements to this public culture: the content of everyday conversation, the discourse of the daily media, the sermons from pulpits and other places, the subject matter of political debate, and the lessons of teachers and scholars, to name just a few.

The prevailing philosophy is not static. Like a stream, it flows in a series of eddies, washing this way and that. It runs up against objects that can divert it in differing directions. It can be shaped, over time, in one direction or another. And it is subject to competing claims and interpretations.

At its heart is the wellbeing of society. It defines how we live together: what is permitted and what is forbidden; what is right and what is wrong; what is lawful and what is unlawful; what is supported and what is rejected.

Ideas are important. They shape the public culture. They inform political discussions. They shape the role of government. They define the relationships between individuals, families, and the institutions of civil society. They underpin policies and programmes. In short, they inform us about how we should live together.

There are certain ideas that we believe are important:

- That the dignity of the individual is the foundation of all other relationships;
- That the political and economic freedom of the individual is central to societal wellbeing, and that personal responsibility underpins such freedom;
- That the convental relationships of love, loyalty, friendship and trust exist outside the political sphere but are essential to the health of society;
- That social order and shared values underpin a healthy society;
- That government should be limited, without forgetting that the protection of the poor and the weak are pivotal political challenges;
- That functional families are crucial for the raising of children and the stability of society;
- That society is a partnership across generations;
- That we belong to a nation, not a series of segregated groups; and
- That our western, liberal democracy best enhances individual freedom and human dignity and is worth defending.

Our purpose therefore is to examine the principles that underpin policy and to discuss proposals and programme directions.

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EDITORIAL

The Hon Kevin Andrews MP

Member for Menzies
Minister for Defence



When the history of the past decade is written, one question will be central to the political developments of the period: Why did the Labor Party abandon the reformist movement of the Hawke/Keating governments, and align itself closer to the earlier Whitlam approach?

A number of possible answers come to mind. The key players of Labor’s recent past – Kevin Rudd and Julia Gillard – were in their impressionable, formative years at the time of the Whitlam government and its demise.

It may also reflect a reaction against the reforms of the Hawke/Keating era, especially when they were largely

supported and continued by the subsequent Howard government.

But these propositions fail to explain why Labor wound back reform when in office, and have resolutely opposed it since. Hence, in recent months, Labor has opposed major infrastructure projects, rejected new sources of energy, and engaged in xenophobic attacks on our major trading partners.

The real answer, I suspect, lies elsewhere.

Many in modern Labor have become obsessed with inner-city issues, seeking to outflank the Greens at the

cost of mainstream Australia. Take this explanation of the recent election loss by the State Secretary of the NSW Labor Party, Jamie Clements: “It seems the voters are less interested in how we select our candidates and more interested in how we can help them pay their bills, keep their job and make sure their children can get a good education and receive the medical attention they need if they fall sick.”

What a revelation!

At the same time, the unions continue to reject any suggestion that their stranglehold on the Party be changed to reflect the broader cross-section of the Australian community.

Moreover, anything other than current Labor orthodoxy is met with intolerance. Witness the treatment of former ACTU president and long-time Cabinet minister, Martin Ferguson.

In the meantime, Labor has steadfastly refused to outline how it would address the economic and other challenges facing the nation.


Mr Shorten’s so-called ‘year of ideas’ has failed to materialise. There is little evidence of the hard policy work required of an Opposition.

What are the lessons for the Coalition?

First, chasing the trendy ideas of the inner-city elite fails to connect with the vast mainstream of the Australian people. Mr Clements’ observations were correct. Any party which loses a focus on the lives of ordinary Australians will also lose their support.

Secondly, an emphasis on developing policies that will address our current and future challenges must always be maintained, both in Opposition and in Government. Good politics must be built on sound policy. Otherwise, populism will hold sway, with long-term adverse consequences.

Which brings me to this latest edition of *Polity*, a purpose of which is to encourage policy discussion in the Liberal and National Parties.

Matthew Canavan argues for the right balance in family policy; Bridget McKenzie examines the impact of technology on government; Tony Pasin proposes reform of industrial relations; David Gillespie considers the vexed issue of government procurement; and Andrew Nikolic and Dan Tehan reinforce the need to meet the challenges facing the nation. 



THE NATIONAL INTEREST

Quiet Achievers

In *Triumph and Demise*, the respected commentator and observer of the Australian polity, Paul Kelly, reflects that serious economic reform is practically impossible today. Written largely before the added intransigence of the Senate became clear, Kelly identified a number of culprits, including the 24-hour news cycle, and an obsession with focus groups.

The modern, democratic polity is characterised by an increasing fragmentation of groups and interests. It is as obvious in other places as it is in Australia. Digital communications and social media amplify these trends.

Complex ideas are reduced to soundbites and a handful of characters. Individuals and groups communicate with like-minded people. A national conversation is more difficult to sustain.

Reform has its challenges. Machiavelli's observation is true: "There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. For the initiator has the enmity of all who would profit by the preservation of the old institution and merely lukewarm defenders in those who gain by the new measures."

Voting systems that emphasize a diversity of interests at the expense of clear electoral outcomes exacerbate the challenge. Inertia is compounded. Necessary change is blocked.

Alexis de Tocqueville, the prescient observer of the new American republic, is reputed to have said that it "would

endure until the day Congress discovers that it can bribe the public with the public's money."

Sadly, some public figures have exceeded this prediction, borrowing in the name of the public, and then refusing to support measures to redress the situation.

Is Paul Kelly correct? Is economic reform almost impossible?

A glance across the Tasman suggests that all is not lost. In a new publication from the Menzies Research Centre, *Quiet Achievers*, Oliver Hartwich examines the New Zealand path to reform.

Dr Hartwich is the Executive Director of The New Zealand Initiative, a former Research Fellow at the Centre for Independent Studies, and former Chief Economist at the London based Policy Exchange.

Noting the success of the National government of Prime Minister John Key, Hartwich identifies three significant factors: the careful, actuarial based approach to welfare reform and employment; the impressive work of Finance Minister, Bill English – the 'quiet achiever' – and an incremental approach to major policy reform. Added to this has been an insistence by the National government to promote the benefits of their policies, not just the features.

Given the Mixed Member Proportional electoral system that operates in New Zealand, and the emphasis on 'consensus' amongst Kiwis, the reforms have been significant.

Hartwich suggests a number of lessons for Australia, summarised by the words patience, preparation, pragmatism and principle. Importantly, inquiry, debate, consultation and compromise are critical characteristics of this success.

This relatively short essay is recommended reading for Australian policy makers.

Oliver Hartwich (2014) *Quiet Achievers: The New Zealand Path to Reform* [Ballarat, Connor Court]  – KA





Submarines and Ships: Australia's Future Defence

Australia's Strategic Environment and Future Defence Priorities

The first priority of a national Government is the safety and security of its citizens. In recent times we have faced complex national security challenges which remind us that Australia is not immune from emerging global threats.

Australia's national security and our \$1.6 trillion dollar economy rely on the unencumbered use of the sea.

70 per cent of Australia's exported goods and services, by value, travel by sea, an export trade worth more than \$220 billion in 2012-13.

We are a maritime nation and we need maritime security. And maritime security requires a robust surface force capability.

It comes as no surprise that the Government is making significant investment in naval programmes and the Australian shipbuilding industry.

The development of appropriately capable maritime forces is central to the Government's strategic objectives that will be laid out in the Defence White Paper, to be released later this year.

The 2015 Defence White Paper will provide a costed, affordable and enduring plan to achieve Australia's defence and national security objectives.

The White Paper will guide Australia's defence capability for the coming decades and include a comprehensive review of Australia's strategic environment, including the changes underway in our region and across the globe, and the implications of these changes for Australia.

It will give substance to the principle that the primary purpose of the ADF and Defence is to secure Australia and to shape Australia's strategic environment in support of our national interests.

Most importantly, it will propose options for the force structure that ensure the capabilities that enable modern joint operations, such as surveillance, communications and logistics infrastructure, are robust and resilient.

The future force we are seeking to develop will be built on the solid foundation that was provided by the Howard Government.

Our air capabilities are being transformed through already agreed plans, the result of which can be seen in the skies over Iraq today.

The last decade has seen substantial investment in our land force with future emphasis on new armoured vehicles, digitisation and enablers.

What we now require is a major programme of modernisation for our naval forces, with key decisions to be taken on submarines, frigates and patrol vessels.

We are in the early stages of an ambitious programme to procure up to 40 naval surface ships and submarines over the next two decades. Programmes for Australia's future submarine and future frigates will consume a significant amount of the available capital funding, and it is important to engage in open discussion of their need and the Government's investment plan.

Future Submarines

Investment in an effective submarine capability plays a critical role in Australia's defence, in conjunction with

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all ADF elements.

By 2030, half of the world's submarines will be in Australia's broader strategic region. The Indo-Pacific region has some of the fastest growing economies in the world and the demand for defence technology to safeguard the region's prosperity and security is ever increasing.

The complexity of Australia's strategic environment means our defence planning has to cater for a range of possible contingencies, but particularly focussed on maintaining stability in our region and ensuring that conflict doesn't have the chance to start. So submarines remain a logical and necessary investment in Australia's wider defence capability.

For this reason, Australia's future submarine must give us a significant capability edge in our region as well as meet our needs in respect to geography and strategic outlook.

We need submarines capable of operations at long range over extended periods because they defend our interests far from our shores. The range and endurance must be similar to that of the Collins class submarine. They are an essential part of our national security capability.

Submarines are the most complicated, sensitive and expensive Defence capability acquisition a Government can make in meeting that responsibility. As a Government and as a nation, we have one chance to get this decision right.

The previous government's refusal for six years to make a decision on the replacement for the Collins class submarines, created a looming security and capability gap arriving in about ten years.

While Labor's valley of death can not be prevented now, its impact can be lessened.

The process recently announced by Government is the best way forward to reduce the impact of Labor's poor management, which oversaw \$16 billion of defence funding cut or deferred, 119 defence projects being delayed, 43 projects being reduced and eight projects cancelled, risking critical capability gaps.

The future submarine programme represents a \$50 billion investment in Australia's safety and security – the largest Defence procurement in Australia's history – with up to two thirds of this investment being spent in Australia during the lifetime of the future submarine.

To the average Australian taxpayer this may seem to be a huge price to pay for a capability that may never be used in anger, but that cost also needs to be measured against the major investment that would need to be made by any adversary to counter the effect of our submarines.

It must be delivered in time to avoid a capability gap in the mid-2020s when the Collins class submarine is scheduled to be retired from service. The decisions we make on the Future Submarine Programme will determine what kind of capability we have to defend Australia and Australian interests into the 2040s and beyond.

The process outlined by the Government provides a pathway for Australian industry to maximise its involvement in the programme, whilst not compromising capability, cost, programme schedule or risk.

Future Frigates

A second major naval project identified by Government is Australia's future frigate capability requirement. The former Government's mismanagement of Defence has again, overseen critical gaps in Australia's naval capability.

Our current fleet of ANZAC class frigates are planned to be withdrawn from the mid-2020s and at least some of the ANZAC ships are likely to require a modest life extension. There is a strategic imperative to avoid a capability gap during the transition from the ANZAC class frigate to the Future Frigate.

The gap between completion of the AWD project and the start of the Future Frigate project, Labor's Valley of Death, cannot be avoided and no decision this Government could make now could stop it.

For six years, Labor failed to make the decisions needed in our shipbuilding industry – including decisions on the replacement frigates for the ANZAC fleet but also on the replacement for the Collins class submarines.



The Navy's Air Warfare Destroyers will underpin the surface force's war fighting capability. But with three destroyers in the fleet, the Future Frigate must also be capable of conducting operations independently or in a task group.

Our current ANZAC class frigates were originally designed as a low intensity patrol frigate but their role has expanded over time. They have become the workhorse for the Navy, operating across a range of peacetime and military roles, both independently and in task groups.

This required successive investments in new capabilities for the ANZAC fleet to keep pace with their expanding roles. At a maximum displacement of 3,900 tonnes, the ships are approaching their weight

and stability limits which will constrain further upgrades.

Drawing in part from this experience, the Future Frigates are expected to face more demanding operational requirements and will need to be more capable. They will be required to conduct a range of missions, from low-level constabulary roles through to regional conflict, but with a particular focus on anti-submarine warfare and theatre-level anti-submarine operations.

These requirements reflect the modernisation and expansion of regional submarine fleets that is underway, to the extent that by 2030 approximately 300 submarines are expected to be operating in the region.

Operating along Australia's coastline, northern approaches and throughout the Indo-Pacific, will require the Future Frigate to have the range, endurance, sea-keeping qualities, survivability and weapons load-out to support prolonged operations throughout our substantial region and, when called to do so, globally.

The nature of the threat environment will require the vessels to be equipped with a range of offensive, defensive and self-protection systems. They need to be of adequate displacement to facilitate a growth path for future weapons systems and sensors.

This is one of the reasons why there is something of a global trend towards larger-sized frigates.

Defence and Industry are currently conducting risk reduction design studies to investigate a number of options for the Future Frigates including the viability of an evolved Hobart Class as a possible solution. Consideration is also being given to a range of alternative foreign designs such as the Type 26 and FREMM frigates, amongst others.

In addition to the Future Frigates the Government is also progressing other projects that will create additional opportunities to move into a design, build, and sustainment phase for Australian ship building, including a fleet of Offshore Patrol Vessels to replace the Armidale class patrol boats and the Australian manufacture of up to 21 Pacific Patrol Boats under the Pacific Maritime Security Program.

Both projects will represent a significant investment in Australian defence industry.

A Sustainable Naval Shipbuilding Industry

In recent times there has been some anxiety about the future submarine programme.

This is why the Government announced the acquisition strategy in February to provide a pathway for Australian industry to maximise its involvement in the programme, whilst not compromising capability, cost, programme schedule or risk.

An enterprise-level naval shipbuilding plan is currently being developed to provide for the long-term future of the Australian naval shipbuilding industry.

We are looking to sustain a shipbuilding industrial base, and avoiding the peaks and troughs we are experiencing – and have experienced in the past – is the feasibility of a continuous build strategy, with a regular pace of delivering new warships.

This would require Defence to carefully manage its acquisition processes and keep the future frigates operational for relatively less time than has been the norm to date. By adopting such an approach the industry would no longer be characterised by a stop-start approach to naval shipbuilding.

To guide industry's efforts to become more productive, the Government's naval shipbuilding plan will provide a clear and sustainable path for the industry to support the strategic and capability needs of Defence; deliver value for money; build commercial confidence; and promote the use of global best practice.

In doing so, the naval shipbuilding plan will ensure that opportunities remain available for competitive Australian businesses to participate in future naval shipbuilding, sustainment and upgrade projects.

Defence must be fit for purpose and able to promptly respond to future challenges.

This is why the Government directed the First Principles Review – because we want to ensure that the Defence organisation can and will deliver on the strategy and capabilities that will be outlined in the White Paper and Force Structure Review.

This is a busy time for Defence, especially as the ADF is embarking on

a period of significant modernisation and acquisition projects. Investment by the Government will provide Defence with a stable and sustainable funding growth path, which was left unachievable by the previous government.

We remain committed to lifting our Nation's Defence budget to two percent of GDP by 2023-24 to maintain a strong and capable Australian Defence Force.

Building a strong and prosperous economy and a safe and secure Australia is the Government's number one responsibility and priority.

Australian Industry Involvement

In 2014-15 financial year, Defence expects to spend \$6.2 billion on equipment acquisition and support in Australia.

This equates to around 53 per cent of the military equipment acquisition and support expenditure this year, and is consistent with long-term averages of between 50 and 55 per cent being spent in Australia.

The Government does support local Defence industry.

When it comes to making decisions on Defence capability, the needs of the Australian Defence Force will – must – always come first.

The Government will acquire Defence capability that supports ADF requirements first and Australian industry can play a very significant role in this process.

Our sailors, soldiers or airmen and



women need the right equipment and industry needs to demonstrate that they are world leaders, producing the best product at the best price.

For its part, industry also needs to step up to meet the challenge of building a sustainable naval sector. The only way Australia can continue to have a naval shipbuilding industry is if the industry is properly structured to drive efficiencies and improve productivity.

This will require hard decisions, and a commitment to a productivity-based culture from all parties – including unions.

Our experience with the AWDs has underlined the need for strong shipbuilding capability and complex project management skills in senior management and across the shipbuilding workforce.

Without shipbuilding experience in management, it is difficult to manage a block build across multiple subcontractors. Moreover, a lack of management experience in shipbuilding leads to inadequate supervision, development and training of the workforce.

Ultimately, a workforce without shipbuilding experience adds a large Australian-build premium. The Australian

naval ship building industry that will build our next generation of frigates will need to be a different industry.

The industry currently isn't internationally competitive in terms of its productivity, and if this does not change it will not be sustainable.

Australian taxpayers currently pay a price premium of at least 30-40 per cent greater than US benchmarks to build naval ships in Australia, and even greater against some other naval ship building nations.

That price premium is simply too high to make good

economic sense.

As it currently stands, it is too high to enable a continuous build strategy to be adopted.

The opportunity cost associated with the defence capabilities which could be foregone, as a result of paying that premium, are too great for any responsible government to consider.

This Government recognises the significant value to our nation of having a skilled naval ship building industry. We cannot afford to see this industry disappear.



The Government will make further announcements in the forthcoming Defence White Paper and accompanying Naval Shipbuilding Plan.

This will include more detail on the commencement of ship construction, the rate the warships will be constructed, and the structure of the naval ship building industry that will be required to support this programme. ^{Ap}

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NEW VOICES

There are Many Things More Important than Working

Matthew Canavan

Australian policymakers have an unhealthy obsession with boosting workforce participation. The otherwise very useful, recently released intergenerational report is peppered with statements of the need to boost the number of Australians working. The report states that: “Continued steps to boost productivity and encourage higher workforce participation will be critical to driving this economic growth.”¹

From reading just the Executive Summary of the report, you get the impression that Australia must be a laggard when it comes to working, and that the common jibe about Australian’s laziness has some truth. But you would be wrong.

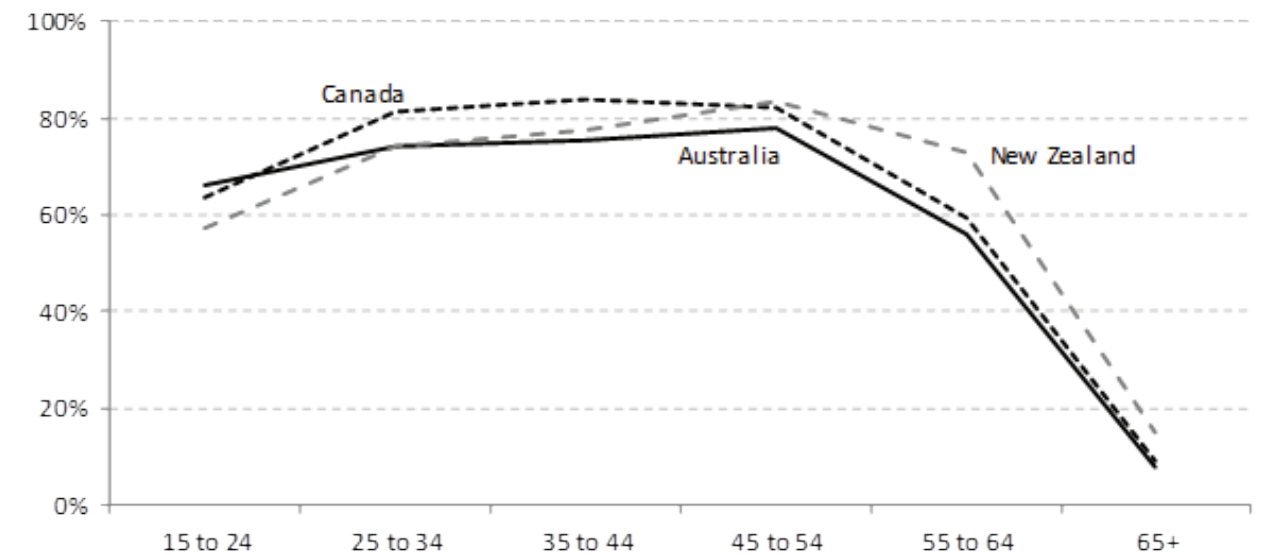
Later in the report, there is a comparison between Australia’s rates of workforce participation and those of 33 other OECD countries.² A greater proportion of Australians work than 29 of those other countries; our rate of workforce participation is the fifth-highest in the OECD. We are only surpassed by Iceland, Switzerland, New Zealand and Canada.

This is hardly indicative of a crisis, and the evidence

simply does not justify the excessive focus workforce participation receives in the Australian policy debate.

Much is made of the higher rates of female workforce participation in New Zealand and Canada – given that they are similar countries to Australia. New Zealand’s female participation rate is 3.2 percentage points higher than Australia’s, and Canada’s is 2.8 percentage points higher.³ Like most statistics, though, these don’t escape Disraeli’s warning about their truth.

When you look deeper, Australia’s performance is not as dire as made out. For young females, Australia has a higher rate of female workforce participation than Canada or New Zealand (see chart). Above that age, Canada’s rate of female participation rate jumps higher – although that has probably more to do with Canada’s lower fertility rate of 1.6 babies per woman, compared to more than 1.9 in Australia and New Zealand.⁴ (Quebec also provides generous childcare subsidies that cap the cost of childcare at just CAD\$7 per day.) New Zealand’s female participation rate then rises higher than both Australia’s and Canada’s for women older than 45.



Source: OECDStats, Labor force status by sex and age, <http://stats.oecd.org/>

Female Participation rates in Australia, New Zealand and China

There are further complications when comparing Australian data with that of overseas countries.

- As noted by the Productivity Commission, in other OECD countries women on paid or unpaid maternity leave are counted as employed, whereas in Australia a mother must have received payment in the last 4 weeks to be counted as employed (even though mothers can receive up to 24 months of unpaid leave under Australian laws).⁵
- Female workforce participation rates for mothers with children from 0 to 3 years and school-age is on par with the OECD average, or slightly above. Australia’s female participation rate for mothers with children between 3 to 5 years old is below average (60 per cent compared with 64 per cent). This indicates that it is perhaps the more generous access to early childhood education (not childcare) that cause our female participation rates to be lower.⁶
- The rate of single parent families not working in Australia is much higher than the OECD average (43 per cent compared with 33 per cent).⁷

It is worth asking why female workforce participation for women older than 45 is higher in New Zealand and Canada than in Australia. But then, the workforce

participation outcomes of people aged over 45 would have been influenced by government policies stretching back decades. So, making forthright conclusions on the effectiveness of current policy settings from these outcomes is fraught.

This is especially so because Australia’s support for working mothers has increased significantly in the past decade. Ten years ago, we spent \$1.5 billion a year on childcare and parental leave. Last year, we spent \$7 billion.⁸ This increase has little to do with growth in numbers of children in childcare and is mostly because of substantial increases in childcare assistance.

In 2004, the Howard government introduced a non-means tested 30 per cent rebate on childcare fees. In 2008, the Rudd government increased the rebate to 50 per cent of child care fees up to a maximum of \$7,500.

There is now talk of increasing childcare assistance even further before the recent increases in assistance have had their full influence on a cohort of women through their working lives.

Childcare is expensive but, in making decisions about funding, we should be mindful of more than just its impact on workforce decisions. For one, encouraging more people into paid work does not necessarily increase the number of people doing “work”. When I have a week “off” and look after the kids full time,

I realise pretty quickly that my wife (who is a stay-at-home Mum) works harder than.

If my wife instead paid someone to look after our children, more people would be in the paid workforce, but the amount of work done across the economy would not necessarily increase. Instead, unpaid work would just be substituted for paid work. If we all paid each other to do each other's laundry, measured GDP would increase, but it is hardly the pathway to economic prosperity.

Second, and more importantly, working for money is not an end itself. Most of us work to allow us to do other things, feed and clothe ourselves and our family, put our kids in the best schools and afford a holiday from time to time. People work to live, not live to work.

If we increase subsidies for people to be in paid work (through, say, increased childcare funding) we will encourage them to do less unpaid work – such as stay at home and look after their own children. The decision to stay at home and look after one's own children is a costly one, indeed by definition is the more costly decision – you give up 100 per cent of your second income to do so.

There is a competing choice and trade-off for every

parent. We would like to spend more time with our children but also provide them with the best schooling and education, and of course fulfil our own working and other ambitions. It can become dangerous when governments seek to influence and distort these choices.

The Productivity Commission's report into early childhood and childcare usefully outlines these competing objectives. Our early childhood education and childcare sector has two main goals: workforce participation and childhood development. The focus is often on the former of these, but the latter is just as, if not more, important.

The Commission rightly points out that high quality childcare helps kids get a head start, especially in the year before school. Yet, the Commission also highlights that childcare may not be the best option for very young children. There is ample evidence that for children under 2 years of age, the best outcome is if Mum or Dad can stay home from work and provide full time care and nurturing. As the Productivity Commission has stated:

Most of the more recent evidence tends to support the view that the use of non-parental care/child care (usually necessitated by maternal employment) when initiated within the first year of a child's life can contribute to



behavioural problems and, in some contexts, delayed cognitive development (Han et al. 2001; Hill et al. 2001; Waldfogel et al. 2002; Brooks-Gunn et al. 2002; Baker et al. 2005)⁹

Our tax and welfare system deters rather than supports parents to make the costly choice of looking after their own children. For example, a household with one working parent (and two children) earning \$80,000 a year pays \$19,100 in net tax, but a household with two working parents earning \$40,000 each (the same total of \$80,000 a year) pays \$9,800 in tax.

Staying home to look after a new baby, for a below average income family, is an almost \$10,000 a year decision. It is even more costly for households with higher incomes. And, these sums do not take into account the generous childcare subsidies.

This taxation disparity has increased in recent years. Double-income families have access to two tax-free thresholds, whereas a single-income family has access to only one. The tax-free threshold increased significantly in 2012 – from \$6000 to \$18,200. That increase has added an additional \$1000 to the gap between the tax paid by the single income and double income families.

The difference in tax paid between a single income and double income family is larger in Australia than most others. A recent OECD report found that Australia has the fifth most unattractive tax system for single income families.

Canada was also a country down on that list. Last year, the Canadian government announced more funding for childcare couples with the introduction of a limited form of “income splitting”. Income splitting allows a family to split income between the parents for tax purposes. This effectively allows double income families to access the two tax-free thresholds they are denied in our system.

Under the Canadian proposal, parents will be able to transfer up to \$50,000 between each other to reduce the tax they pay. This would allow parents to respond to a new baby by, say, one working harder, not both working, so that one of them can devote themselves to the care of the newborn.

Given the state of our budget, we might not be able to afford the Canadian option.

Nonetheless, the Australian Government's commitment to a redesigned childcare system gives us the opportunity

to at least design our system in accordance with the evidence about what’s best for the child.

For a family which has a child under 2, why not give them the financial flexibility to send their kids to childcare or stay at home themselves? Instead of paying subsidies to childcare centres, why not pay the parents and let them decide who is best to look after their child?

Why are we designing a system that pays someone to look after another person’s kids but won’t support a parent to look after their own? 

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The Impact of Technology on Government

Bridget McKenzie

The Internet has transformed society, making it easier to buy goods and access services from around the world.

It has also increased the opportunities for companies to minimise or avoid paying tax.

The growth of online sports gambling and the increase of off-shore betting operators in Australia is a classic example of this.

Gambling at the racetrack or TAB is no longer the norm, with half of all sports betting now conducted online.

Punters can use their smartphone to place a bet on a soccer game in Sydney from anywhere in Australia via a bookie in Thailand.

Yet there is currently no national approach to taxing international wagering.

The challenge for Australia is to set a policy agenda that keeps pace with these rapid changes.

In August last year, Australia's largest online sports betting agency tomwaterhouse.com, was sold to British

gambling enterprise William Hill.

This purchase reflects a growing trend of foreign operators who have entered the local market in the past two years including Betfred, Unibet and bet365.

These overseas sites have no regulatory oversight by Australian authorities meaning we miss out on the tax revenue; revenue that could be reinvested locally.

The loss of taxation revenue is a problem that is only going to get bigger with expenditure on sports betting doubling between 2005-6 and 2011-12.

The number of punters wagering online is expected to grow exponentially over the coming five years as well as the number of punters placing multiple bets on a wide variety of sports also set to grow.

The revolution in online sports betting has led to an outdated gaming licensing system in need of reform.

The need to respond to the impact of online gambling provides the catalyst for a more detailed review of Australia's gambling industry.

New Voices

Previous reviews have highlighted significant inconsistencies in the level of taxation paid by online wagering companies across the states and territories.

Tax rates in the Northern Territory are 0.33 per cent as compared to 1.5 per cent in New South Wales.

Corporate entities can offer national coverage from any state or territory, resulting in jurisdictional competition for revenue.

State governments no longer have the power to require extra royalties or fees for transactions relating to their state.

The High Court's decision in *Betfair v Western Australia* (2008) 234 CLR 418 highlighted that this is a constitutional issue, which must be rectified in our legislation.

State and Territory governments must take a united approach through the Coalition of Australian Governments (COAG), to set uniform licensing conditions across the country.

Beyond that, they have limited tools to address wagering

reform, as it impacts on foreign operators, treaties and taxation, all of which are federal issues.

What is needed is a National Gambling Licence Scheme that will:

- ensure equal access to the wagering market to exclude illegal operators;
- ensure the consistent application of terms and conditions across all license operators in Australia;
- ensure consumer protection in terms of licensee conduct and licensee default safeguards, and;
- prevent the bypass of existing tax and levy collections imposed by states and territories.

The introduction of a National Gambling Licence Scheme will provide greater equity and improved consistency for consumers, industry and government.

The states will likely support these changes provided there are assurances their current revenues are protected and the administration of the industry remains in state hands.

Other nations have moved or are moving to implement wagering reform and capture revenue from online bets. In the UK, new laws include a 15 per cent tax on



online winnings from bets made by domestic customers, while in the US citizens are required to pay tax on all income including gambling income earned worldwide, from whatever source.

The online gambling industry is also subject to a variety of state-based fees.

The Dutch, Portugese and Brazilian governments are also moving towards taxation in an effort to regulate online gambling, with Portugal planning on directing tax revenue back into sports and cultural projects.

Here in Australia we must look at reforms that will ensure Australians bet with licensed operators; all operators are made to pay Australian product taxes for wagering on Australian events; and, sports betting operators are made to pay reasonable taxes.

By applying a product levy or transaction tax uniformly across all operators, taking into account the current volume and projected increase in online sports betting, informed estimates indicate that there is the potential for up to \$1 billion cumulative over the initial five years in additional taxation revenue.

Currently a portion of tax revenue raised from betting on horse racing is reinvested by our states back into racing infrastructure, which in my home state of Victoria is through the Victorian Racing Industry Fund, which provides \$30 million worth of funding over four years to support to the Victorian racing industry.

This funds improvements to racing and training venues and for selected programmes designed to further stimulate industry growth and development.

These types of investments have worked successfully in racing and it makes sense that a portion of any online wagering tax revenue raised is reinvested back into regional sporting infrastructure.

The emergence of online sports betting has allowed punters to bet on country football leagues, iconic regional events such as the Stawell Gift, country golf tournaments such as the Traralgon Pro-Am, regional cycling events and more.

During my travels across regional Victoria I have seen countless football and cricket clubrooms in a state of disrepair, netball and tennis courts in desperate need of resurfacing, cracked and ageing cycling veledromes, outdated athletics tracks and dilapidated basketball stadiums.

The lack of investment in our regional sporting infrastructure is a clear market failure.

Expanding the MCG, Etihad Stadium or the Melbourne Tennis Centre makes financial sense, with these facilities able to attract countless national and world-class events to see a significant return on investment.

In regional communities the ability to see a return on investment from sporting infrastructure investments cannot be matched, meaning our country communities miss out on

the facilities they need to support their local sportspeople to reach the next level or compete to attract top level events.

The state of our regional sporting infrastructure is also a significant impediment to encouraging more people to play sport.

We know that if more people get more active more often it builds healthier and happier communities.

At the present time, there is no federal government scheme in place which invests in regional sporting infrastructure which means our country communities continue to fall further and further behind.

With over 30 per cent of Australia's population living in rural areas, we need to reverse the lack of investment in regional infrastructure, particularly sporting infrastructure.

A 2012 Infrastructure Australia report found that Australia's current infrastructure deficit was around \$800 billion.

This is clear evidence governments of all persuasions need to look at new ways of generating revenue to invest in infrastructure.

When it comes to funding regional infrastructure, The Nationals, working as part of a Coalition Government, have led the way with initiatives such as the National Stronger Regions Fund, which has already committed \$1 billion to regional infrastructure over five years, however this does not address the funding imbalance for regional sporting infrastructure.

for the regulation of a legitimate public interest.

All OECD countries regulate the conduct of gaming promoters and most restrict the provision of gaming and wagering services by persons not licenced within their jurisdiction.

In the US, this includes criminal sanctions which are strictly enforced.

Equally, it cannot be claimed these proposals are an attempt to protect local industry at the expense of overseas competitors because the majority of the industry is owned and operated by foreign interests.

The failure of the Coalition Government to consider this proposal sensibly could well result in significant opportunity cost in revenue, and provide other political parties with a platform to harness this simple national regulatory proposal which would provide a sustainable boost to the Australian economy in the forward estimates, which could be used for significant investment in regional sporting infrastructure delivering essential economic and social outcomes for our communities.

Senator Bridget McKenzie is a Nationals Senator for Victoria





Reforming Australia's Industrial Relations System for the Next Generation

Tony Pasin

Across generations the Australian industrial relations system has regulated the interests of employers and employees providing a fair way to settle disputes without the need for the widespread, economically damaging, often violent industrial action, with of course some notable exceptions. Whilst that system is envied around much of the globe, it is in need of reform to ensure we address the rising tide of unemployment particularly among young unskilled Australians and the social costs associated with the same.

The 1907 *Harvester* judgment by the Commonwealth Arbitration Court established a minimum wage, the first such benchmark anywhere in the world, which allowed for a man and his family to live in “frugal comfort”.

A system of awards was devised as a way of determining the outcome of industrial disputes and as a way to settle and prevent disputes. Awards also serve to set minimum wages and conditions to be applied across the economy for different occupations.

Through the period of the Accord, increases to the minimum wage were theoretically meant to be offset by increases in the ‘social wage’ such as Medicare, compulsory superannuation, taxation relief and other factors which directly impacted take home pay.

The failure of the Accord was that it benefited big business, big unions and big government but left behind

the small business operators that make up the majority of our employers in Australia's modern economy.

The Accord operated during a time when the Australian economy was characterised by higher levels of union membership and many more large single employers particularly in the manufacturing sector.

Happily, the modernisation and deregulation of the Australian economy that occurred in the early 1980's and continued up until the election of the Rudd – Gillard – Rudd Governments has seen a shift away from this model to a more service-based, entrepreneurial, innovative and export focussed economy required to compete globally against economies with much lower wage structures.

The introduction of enterprise bargaining, Australian Workplace Agreements and individual contracts in the 1990's was an attempt to bring about flexible wage structures. This allowed individual businesses to reward highly skilled and valued workers whilst retaining the ability to respond to downturns in the economy.

It is not a surprise that this period saw some of our nation's lowest unemployment rates and the longest sustained increases in real wages in our history, all of which was achieved despite external shocks such as the dotcom recession and the September 11 attacks. However, what became clear to me while I studied Labour Law at Flinders University some twenty years

or so ago was that a key element of our industrial relations system was out of step with the modern Australian economy, and punishing – in particular – young Australians seeking to join the nation's workforce.

Penalty rates, a fundamental plank of the Australian industrial relations system, were then and indeed remain now incongruent with modern Australian attitudes to work.

Penalty rates were introduced to compensate employees for working what were traditionally regarded as unsociable hours, based of course on the view that the traditional working week involved working 9am to 5pm Monday to Friday.

The modernisation of the Australian economy meant that this traditional view was outdated even 20 years ago as I sat listening to the teachings of Professor Stewart. In truth it was atypical then and even less likely today for an employee to work what our industrial relations system has entrenched as the standard working week. It's the musical equivalent of expecting Frank Sinatra to sing Hip Hop.

Today Australia operates a 24/7 service economy with services generating over 75 per cent of our employment and more than 85 per cent of our national income, the proportion of which will only grow into the future. The economy relies heavily on hospitality, tourism and retail businesses being available over the course of weekends, public holidays and late into the night. Moreover the significant capital invested in other industries including mining and manufacturing requires

plants to operate continuous shifts to deliver the necessary productivity and returns on investment that shareholders demand. The need to operate 7 day enterprises has even extended into the farming and agricultural sectors, which are of course close to my heart, as processor scheduling has become a just-in-time art form.

On the demand side of this equation the net effect of this modernisation is that employers are looking to employ employees with the capacity to work flexible hours including weekends and nights.

On the supply side, because Australian social attitudes to the 'traditional working week' have moved so far from the nostalgic view on which our industrial relations system is based, we have significant cohorts of willing employees – particularly young people – who have the capacity to work flexible hours and indeed value that flexibility.

Notwithstanding this substantial structural change to the Australian economy our system of penalty rates continues to operate on the basis of the 6 o'clock swill mentality. This punishes the cohort of employers who would – but for this punishing regime – extend their trading operations, as well as punishing consumers who miss out. The economy also suffers because of lower levels of activity and so does government because lower levels of activity means less tax revenue.

A modern Australia can not see a person starting their first hour of the work for the week on a Friday night commanding as much as \$60 an

hour or more and remaining on that rate of pay for the entire weekend.

This type of structure can lead to perverse incentives; making it uneconomical for businesses to open at times when penalty rates apply.

Real world examples are always instructive. Close friends of mine operate a 50 room hotel motel in a major regional South Australian city. They acquired that leasehold business a hand full of years ago and have three adorable young children in their tweens. Given the size of that enterprise they employ a significant number of staff across a broad range of skill sets. It is a full service facility that operates 24 hours a day 7 days a week. Needless to say they abide strictly with the industrial relations laws applicable to their business.

They are regularly approached by prospective employees enquiring about employment opportunities.

Two recent examples are telling, the first was a mother in her mid-thirties who indicated that she was available for weekend work as her husband worked Monday to Friday, meaning that he could take over parental responsibilities over the weekend and she could undertake some work. This was more – as she described it – for her personal sanity than for the money. The second was a student undertaking tertiary studies, who sought weekend work due to his scholastic commitments during the week.

Despite wishing to employ them both, the business was unable to do so because it could not sustain additional weekend penalty rates.

Almost to deliberately make my point on receiving this advice, both prospective employees indicated that they would be willing to work at the ordinary rate of pay. Neither gained the employment they sought and the proprietors are left working every hour God made, including the weekend and after hours. I've heard of lose/lose situations but this is a lose (prospective employee), lose (prospective employer), lose (consumer) and lose (government) situation – total madness.

This is important of course because currently there are approximately 580,000 Australians aged between 15 and 25 who are not in full-time employment or undertaking any form of training.

No one would argue, least of all me, that penalty rates have no place in a modern Australian industrial relations system – of course they do. The question is when should they operate and in what circumstances. Currently they operate as a barrier to employment, particularly of young unskilled Australians. If we were

to move to a system that allowed for them to operate once an employee had worked more than the standard 38 hours in any particular week, we would see the end of the perverse incentives currently operating and generate the job opportunities our economy so desperately requires.

As a nation we need to accept that the nostalgic view of Australian life that involves working Monday to Friday, sport on Saturday and church on Sunday no longer (sadly in the case of the latter) reflects 21st century Australia.

I accept that this argument may be regarded as politically unpalatable or even courageous, and that may go some way to explaining why it is that the current penalty rates regime has survived despite the rationale for it being now so outdated. I am reminded of the work of the late Bert Kelly who rallied against the then conventional attitudes to international trade. Ultimately the views of the modest member won the day.



As policy makers we must summon the courage to address this issue and in so doing we need to address the misconceptions fuelled by those opposed to the reforms in an effort to shield the system from change.

The most common misconception in industrial relations and the misconception so aggressively (and sadly it should be said successfully) promulgated during the anti-workchoices campaign, was that there is an antagonistic relationship between employee and employer. This is one fostered particularly by the trade union movement which gains relevance because of that misconception.

While this may have rung true in

the era of big employers and an unregulated labour market that characterised the early and mid 20th century, times have moved on, and today the overwhelming majority of businesses recognise that there is no value in having a workforce that is offside and feeling cheated by their employer.

Conditions such as these lead to lower productivity, high staff turnover and ultimately higher costs. This is particularly the case in small family businesses, where employee angst can create unwelcoming environments to work in that are particularly undesirable.

It is in the best interests of employers to retain productive,

well-intentioned and harmonious workplaces, a fact that has been recognised for some time. The old image of the greedy employer turning the screws on employees is misguided and as outdated as the view of Australia on which penalty rates are predicated.

In this context the productivity commission's announcement that it is undertaking a root and branch review of Australia's Industrial Relations system should be welcomed by employees and employers alike.

By designing a system that promotes more jobs, more productivity, more harmony in the workplace and a fair balance between the needs of employees and employers we can

begin to address the structures that are driving increases in the rate of youth unemployment.

The system should recognise that different employees have different needs, and make sure that business can create wage structures that will accommodate those needs and will lead to jobs growth, particularly in the future growth sectors of the economy such as the service industries, retail trade and tourism.

If wage structures were set appropriately, instead of employing one person at \$60 an hour on a Friday night, a café might reasonably be able to expect to employ 2 people over that same period.


Failure to look maturely and

responsibly at how we can get more young people into work will consign a generation of our youth to long-term unemployment that will foster a sense of social unrest and help perpetuate the myth that young people are indolent.

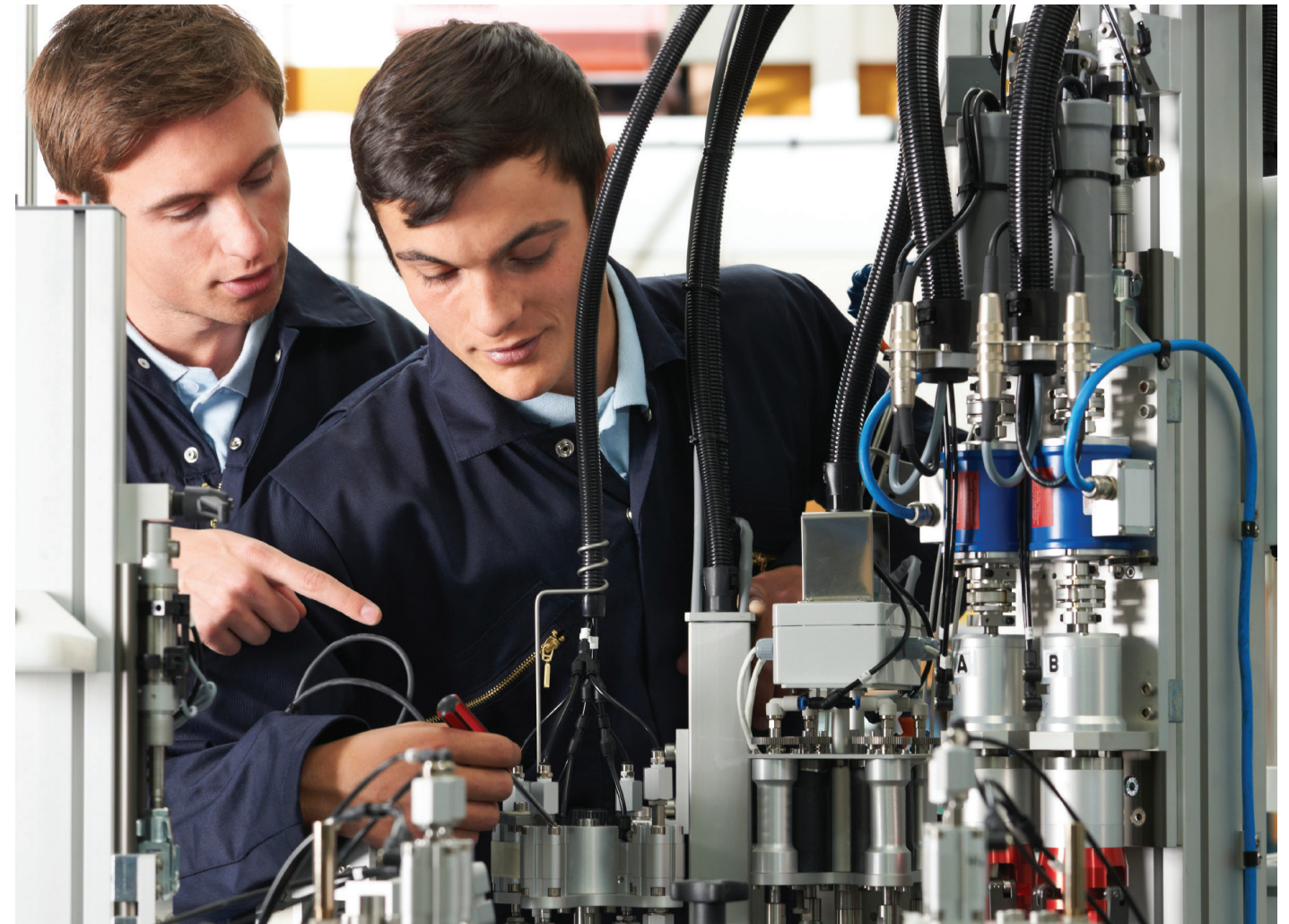
Most people, especially young people, are desperate to work because it not only gives them valuable experience and disposable income but also promotes their sense of self-worth and identity.

The intent of the *Harvester* judgment in 1907 was to ensure people could live in a degree of comfort even if they were at the lowest end of the wages spectrum.

Sadly that objective has become distorted over time to force ready and willing employees out of the jobs market. Business simply cannot afford the high price associated with their employment on what most people would agree are patently unfair terms.

We owe it to the young people of Australia to carefully investigate the best ways to maximise their job opportunities and to ensure that they are appropriately remunerated. We owe it to our employers to make sure they are able to open their doors and help create the national prosperity we all seek. 

Tony Pasin MP is the Federal Member for Barker





Achieving Value for Money in Commonwealth Procurement

David Gillespie

Achieving value for money is always important in any transaction but critical when one purchases \$40 billion in goods and services with delegated third party funds.

This is the situation Federal Government departments find themselves in annually.

State and local governments also have enormous procurement budgets and a similar principle of achieving value for money is paramount for them as well.

Regular transactions by the Federal Government of this size and regularity mean they exercise enormous influence in the markets in which they purchase goods.

Long-term government supply contracts, which often run for years, can deliver successful tenderers a degree of certainty and the ability to plan, invest and enact long-term efficiencies which can establish a solid base under their business that allows them to secure other short-term contracts.

Conversely, the loss of any large or long-term contracts – private or government – can be a major blow to a business. Many genuine Australian domiciled companies producing goods are often unsuccessful in securing government contracts on the basis that value for taxpayers dollar equates to the lowest ticket price alone.

It is entirely sensible and good practice in purely business transactions to assess “value for money” on criteria of ticket price and quality of goods that must be fit for purpose. But it is not exactly the same for governments, as different consequences follow the transaction. Governments not only own the good or receive the service but they also can recoup a large slice of the purchase price if they purchase it from Australian domiciled producers.

When a federal, state or local government department purchases goods from a genuine domestic-based producer, treasuries will effectively receive a rebate of up

to 40 cents in the dollar between them down the line from PAYE tax, Medicare levies, company tax and GST from the contracted company as well as associated local suppliers who benefit from the local economic multiplier effect.

There are even benefits to local government with council rates from business and employees as well as equipment, miscellaneous fees and charges.

The department of social security also benefits when local employment continues and government avoids subsequent liabilities for Newstart benefits, employment stimulus and retraining programmes.

Decisions on huge government purchasers appear to have been made within their own departmental silo, without costs or benefits to treasury or social security being assessed.

For example, in the paper industry, Australian manufacturers ascertained 15 of 22 federal government departments purchase simple A4 copy paper and other

paper supplies from overseas manufacturers at a marginally lower price than Australian produced paper. Yet a paper plant in NSW has just announced its closure and 75 people will soon be unemployed. The financial returns to government of \$1.81 for every ream of paper produced locally and Australia wide was not factored into the decision to purchase overseas product. Australia-wide the company returns to the Federal Government in taxes from local production of paper of \$430 million annually.

Another recent example is that of an Australian boot manufacturer. The company was one of several unsuccessful companies in a government tender eventually awarded to a company importing boots produced and assembled overseas. How ironic and sad that the same boot maker has subsequently applied to the Federal Government for assistance for retraining and transitional programmes, similar to those announced to allay some effects of the loss of automotive industry employment.

The Indonesian company producing the goods was marginally cheaper. This is no surprise, considering they were not required to comply with Australian OH&S laws, Environmental regulations, Australia's industrial relations laws, high Australian federal and state taxes, compulsory superannuation, or high electricity costs to name a few inherently uncompetitive government generated costs under which Australian producers labour.

Yet too often government departments purchasing are ignorant to, or do not calculate the impact of, long-term embedded government IR regulations and standards and taxes that function as "reverse" tariffs for Australian producers. They all inevitably increase the price of Australian products. By contrast, their overseas competitors are excused from compliance from these burdensome regulations.

It is very hard for any Australian company to tender in

competition with overseas competitors when the same government ties the local companies' hands behind their backs with red, green and industrial relations tape, and taxes unique to Australia.

It adds insult to injury when the same Government's departments do not apply the financial return Australian companies and employees return to treasury as part of the "value for money" decision matrix, yet justify decisions not to purchase locally produced goods on very marginal price differences that are considerably less than the effective rebate local producers deliver to government.


When procurement decisions are made without this reality factored in the government frequently does not achieve value for money, as the final cost to government is greater when purchasing from overseas producers.

Our Free Trade Agreements aim to create a level playing

field but they don't mandate Australian governments pay more, as the intent with trade partners is for us all to benefit from paying less.

The current application of commonwealth procurement rules achieve poor value for the taxpayer far too frequently.

They must be changed, clarified or at least applied by officers who appreciate the differences in value for money when procurement occurs with companies whose goods are produced on shore, as opposed to a company that sells imported goods under an Australian ABN. Our FTA partners apply this principle to many of their own procurement rules, so why don't we?

And it also "adds salt to the wound" when pleas for consideration of the cost resulting from "reverse tariffs" Australian governments impose on local companies, are met with deaf ears. 

Dr David Gillespie MP is the Federal Member for Lyne



THE ECONOMY

The Great Policy Debate: National Economic Sustainability

Andrew Nikolic

Dan Tehan

Hundreds of policy issues are debated in Australia each month, all of which can be traced back to an essential centre of gravity – national economic sustainability. Policy and strategy without adequate resourcing is either illusion or deception.

Under recent Labor and Labor-Green governments, taxpayer resources were squandered, substantially diminishing Australia's economic freedom of action.

Now a 'war of ideas' is being fought in the 44th Parliament on the ways and means to restore that lost freedom. The authors, one a former senior Army officer and the other a former diplomat, are focussed on strategic responses to this issue.

Clausewitz referred to war '...as politics by other means'. Undoubtedly, political debate on the economy in the lead up to the next election will be 'warlike', for a number of reasons.

First, the stakes could not be higher: (electoral) victory or oblivion.

Second, this debate of ideas is best undertaken with a

prudent and sensible strategy in mind, which focuses strongly on the hard-edged reality of available resources.

And, finally, each places immense and unremitting strain on the capacities of its principal participants; the quality of each team.

Let's now unravel this political metaphor. First, to the stakes at risk; or the 'skin in the game'.

Beyond the obvious prize of the next election, what is really being contested is the all-important matter of which party can be trusted as Australia's economic steward.

This trust cannot be secured – or even bought – through excessive largesse and ceaseless, reckless spending of taxpayer wealth. If it could, Labor would still hold the federal political reins. They know it, and so does an informed Australian electorate.

The Coalition spent much of 2014, fixing the 'trashed Labor frat house', after the tenants were finally and forcefully ejected. With the repair job underway, we must now turn our attention to ensuring the house once again has the foundations to survive a future economic storm.

The Economy

As Clausewitz articulated, such an undertaking cannot occur without a clearly-defined strategy and a frank articulation of available resources.

Three initiatives - the Intergenerational Report, and the Federation and Tax White Papers, provide a useful near-term conduit through which to define economic strategy. One provides the compelling case for the need to act; the others, the means to do so.

The Intergenerational Report affirms that we are currently stealing from our children and grandchildren.

A longer lived population is reason for both celebration and careful economic planning; within two generations our national health budget will almost double, to an additional \$45 billion.

We have to prepare, not borrow, for this; with the case of Japan offering a 'canary in the mine' insight – there,

sales of adult 'nappies' outnumber the baby version! This problem can only be fixed, by doing more with less, through the means of economic structural reform.

Through the Federation White Paper the Government can lead the way.

Much of the key lies in reducing and minimising State and Federal Government duplication, and in essential tax reform. Doing so, will advantage both levels of Government, and all taxpayers.

We must reform the current tax system to ensure efficiency and effectiveness of collection and to incentivise entrepreneurship.

David Murray was 'spot on' in his recent financial services report. To get the best solution to a complex future, everything must be up for debate.



The Great Policy Debate: National Economic Sustainability

Finally, Clausewitz would have counselled the need to know and contain your adversary. But not to cede national strategic leadership to them. This is the Government's job.

Our challenge in 2015 – and beyond, is to convince those who really count – the Australian people – that our vision links compellingly to a strong and prosperous economy and a safe, secure Australia. This is potentially

‘backs to the wall’ stuff.

Convincing the Australian people to focus on the long-term, strategic needs of our country, requires more of the leadership, resolve, and unity of purpose that delivered Prime Minister Abbott the keys to the Lodge.


Failing to convince them means their impoverished political inheritance will be further damaged by ‘More

The Economy

Labor’- only this time, led by a smug and grinning ‘Cheshire Cat’, who has taken them for dupes; and along the way, slain two former PMs, to slake his self-serving thirst for the top job.

We must show Australians that doing nothing to repair the economy is not an option, and that no one deserves the Prime Ministership unless they lay out a serious economic plan to deal with Australia's complex

impending challenges.

And Bill Shorten's implausible promises, which depend on yet more borrowing and spending – show that no one deserves Bill Shorten – not even the Australian Labor Party – and certainly not Australia! 

Andrew Nikolic AM CSC MP is the Federal Member for Bass

Dan Tehan MP is the Federal Member for Wannon



In defense of tradition

Based on the recommendation of a friend, I read the 1983 Jefferson Lecture by Jaroslav Pelikan, a leading scholar on the history of Christianity. In it, Pelikan said this: “I am not altogether certain that Thomas Jefferson would have approved of a series of lectures in his honor that bore the title, ‘The Vindication of Tradition’ – which is a nice way of saying that I am altogether certain that Mr. Jefferson would have disapproved. He thought that tradition was a hindrance, not a help, in the advancement of life, the protection of liberty, and the pursuit of happiness.”

Martin Luther had similar reservations, fearing the effects of “human traditions” on the uncontaminated, original word of God.

According to Pelikan both Jefferson and Luther wanted to move beyond tradition to authentic Truth, which was uncorrupted by history. Professor Pelikan held a very different view. He believed tradition could help us better understand both truth and contemporary life.

Professor Pelikan didn’t believe tradition was coextensive with truth, but he did insist that it “does present itself as the way that we who are its heirs must follow if we are to go beyond it – through it, but beyond it – to a universal truth that is available only in a particular embodiment.” It is to the tradition of Athens and Jerusalem that their spiritual descendants must return to, Pelikan writes – “not to linger there permanently, but to find there, for each generation of descendants, what we for our part shall not recognize elsewhere ... unless we have first seen it here.” A living tradition must find itself connected to both the universal and the particular, and it must have the capacity to develop while also maintaining its identity and continuity.

I raise all this because it’s my impression that today conservatives appeal far more to abstract principles than to tradition, a word and concept that is rarely invoked. That wasn’t always the case. There’s a tension between tradition and progress, but tradition is necessary for progress, which builds on what we have. “We need to understand what we’re building on,” Yuval Levin says, “what’s best about it and what’s worst about it.”

Today the idea of progress doesn’t have much room for tradition. But to detach ourselves from tradition is to detach ourselves from the human story, from trials and errors, and so from a source of wisdom. “Real development is not leaving things behind, as on a road,” G.K. Chesterton said, “but drawing life from them, as from a root.”


There’s something more to add on this matter, though: Our need for greater humility. By that I mean most of us are certain that our view of things is inherently superior to how people in the past viewed them. We see ourselves as the most enlightened age of all. C.S. Lewis referred to this as “chronological snobbery”: “the uncritical acceptance of the intellectual climate common to our own age and the assumption that whatever has gone out of date is on that account discredited. You must find why it went out of date. Was it ever refuted (and if so by whom, where, and how conclusively) or did it merely die away as fashions do? If the latter, this tells us nothing about its truth or falsehood. From seeing this, one passes to the realization that our own age is also ‘a period,’ and certainly has, like all periods, its own characteristic illusions. They are likeliest to lurk in those widespread assumptions which are so ingrained in the age that no one dares to attack or feels it necessary to defend them.”

That is something rather off-putting about our self-congratulatory attitude, the belief that we are so much wiser than those who came before us. On some matters we surely are, but on some matters we surely are not. And ask yourself this: In matters of philosophy, theology, science, statecraft, literature, and music, who today is the equal of Aristotle, Augustine, Newton, Lincoln, Tolstoy, and Mozart? Then ask yourself whether you think they have anything to teach us.

In *The Vindication of Tradition*, Jaroslav Pelikan uses the example of children and parents. He points out how, when we’re young, we often believe our parents are all-wise, blind to their foibles. But it is no less childish, once we discover their foibles, to deny them the respect and honor that is due them for having given us life and having sacrificed for us.

Maturity in our relation to our parents consists in going beyond both a belief in their omniscience and a disdain for their weakness, Pelikan wrote, “to an understanding and a gratitude for their decisive part in that ongoing process in which now we, too, must take our place, as heirs and yet free. So it must be in our relation to our spiritual and intellectual parentage, our tradition. An

abstract concept of parenthood is no substitute for our real parents, an abstract cosmopolitanism no substitute for our real traditions.”

That is an insight – a philosophical tradition, if you will – that conservatives above all should embrace. 

Peter Wehner is a senior fellow at the Ethics and Public Policy Center, Washington DC.

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