

Downshifting in Australia

The extensive publicity surrounding the Institute's report on downshifting (Discussion Paper No. 50) has thrown conservatives into confusion. What does an economic rationalist say to people who exercise their free choice and decide to reject the values of consumer society? That's not in the economics texts. Clive Hamilton reports.

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Despite the fact that we are three times richer than in the 1950s, nearly two-thirds of Australians say they cannot afford to buy everything they really need. And it's not just the poorest who complain. Nearly half of the richest 20 per cent of households say they do not have enough money to buy what they need.

These 'middle-class whingers' are caught in a life-long quest to make their incomes match their consumer desires; and because their desires always outstrip their incomes they constantly feel deprived. Consumer society relies on the never-ending creation of desire for more.

But some people manage to break out of the cycle. New research by The Australia Institute has uncovered a large but hidden class of citizens who consciously reject the trappings of material success. Our Newspoll survey found that over the last 10 years 23 per cent of Australians aged 30 to 59 have made a voluntary long-term change to their lifestyles resulting in earning less money. The figure excludes early retirees, those returning to study and women resigning to have babies.

Some employers are responding to the cultural revolution reflected by these 'downshiffters' by introducing greater work flexibility, with the federal Employment Department announcing in January a new deal that allows public servants to sacrifice pay for an extra two months annual leave. They can also choose more family-friendly hours. For some time teachers in NSW have been

able to opt for a 20 per cent reduction in pay and, in exchange, take every fifth year off to do whatever they like.

While the reasons for downshifting identified by the Institute's survey are diverse - more time with family, more balance, more fulfilment - those making the change share a belief that excessive pursuit of money and materialism comes at a substantial cost to their own lives and those of their families.

The middle-class whinger is a close cousin of the aspirational voter.

The middle-class whinger is a close cousin of the aspirational voter in whose hands, the pundits tell us, government lies. These voters aspire to wealthy lifestyles characterised by trophy homes, private schooling, flash cars, home theatres and whatever else marks them out as having 'made it'. Such voters are open to political bribery.

But for downshiffters the 'hip-pocket nerve' has been cauterised. They might be called 'anti-aspirational voters'. For every anti-aspirational voter another remains in the closet; they agree with the basic values and life priorities of downshiffters but lack the resolve or, in some cases, the wherewithal, to make the transition to downshifting.

The survey results show that the phenomenon is by no means confined

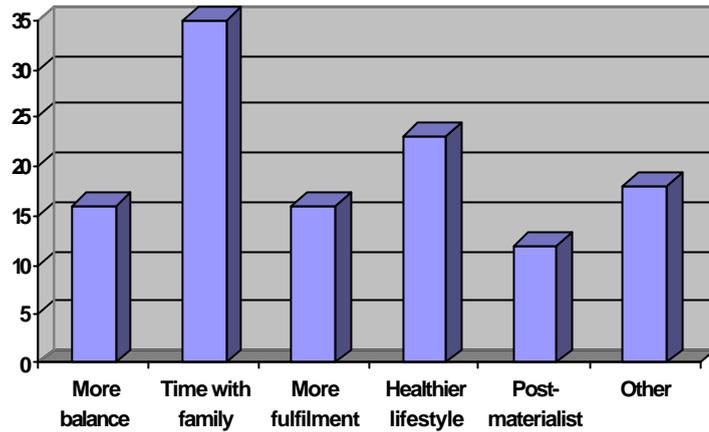
to middle-class professionals and successful business people who can afford to cut their incomes. Downshifter certainly include people in this category, but they are just as likely to be low and middle-income people who have decided to accept reduced incomes, live more simply and spend more time on activities other than making money.

The numbers of Australians taking the downshifting path appear to be growing. Many are baby boomers who have done well financially, but just as many are in their late 20s and 30s. Younger downshifters are somewhat more likely to articulate post-materialist values, those that explicitly reject consumerism in favour of simpler and more sustainable lifestyles. Many have taken advantage of the flexibility permitted by the deregulated labour market. They can more easily change jobs, work independently, reduce their hours and negotiate more time off.

Role models

Rejecting the consumerist definition of success takes courage, and the absence of everyday role models makes it all the more difficult. It is unusual for prominent people to reject these values and when they do – as in the cases of former National Party leader Tim Fischer and Chair of the ACCC Allan Fels – their decisions to step down for family reasons attract widespread and sympathetic attention. But because they have been earning high salaries for a long time they do not provide suitable role models for ordinary people thinking of taking the plunge.

Why Australians downshift (%)



Downshifters frequently report that they feel the weight of social pressure because of their decision. They are seen to be ‘crazy’ to reject higher incomes and the accoutrements of materialism. Or they are accused of trying to cover up failure. But downshifters have simply chosen balanced lives rather than lives obsessed with material acquisition. Those who remain the prisoners of overwork and consumer dreaming, who find themselves beset by stress, ill-health and family strain, will soon be seen as the crazy ones.

The old political parties compete with each other to demonstrate concern for ‘struggling families’, promising tax cuts and middle-class welfare. The political system is geared towards trying to satisfy the noisy demands of middle-class whingers, demands that can never be satisfied because complaining is endemic as long as wealthy people feel somehow deprived.

Politics of downshifting

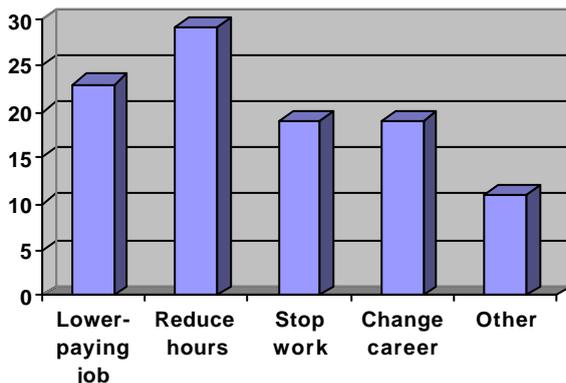
Downshifters do not complain: they quietly go about their lives. There is a clash between their values and those embodied in Australia’s political culture. They are disenfranchised because much of the political debate is preoccupied with things in which they have no interest or actively reject.

Downshifters do not demand that governments solve their problems for them.

Unlike middle-class whingers, downshifters do not demand that governments solve their problems for them. They have been offered a ‘fistful of dollars’ but have said ‘no thanks’. And those who have consciously made a downward bracket leap are not worried by bracket creep. They are more likely to ask the Government to ratify the Kyoto Protocol than give them a \$30 a week tax break. They remain concerned about affordability; after all, they have reduced their incomes. But they have also proven to themselves that they can do without many of the things they previously took for granted.

The emergence of a large class of downshifters in Australia challenges the

How Australians downshift (%)



Continued on page 11

Pornography on the Internet

In early March the Institute released research advocating greater liberalisation of censorship laws governing pornography on the Internet. This may come as a surprise to many readers of this newsletter. After the storm of publicity created by the Institute’s two papers, many may have formed the impression that the authors of the papers were advocating a crackdown. Clive Hamilton, one of the authors, explains.

At present there is in effect no censorship of pornographic material on the Internet with the exception of child pornography which is vigorously suppressed. By law, however, it is illegal for an Australian Internet Service Provider (ISP) to host material that would be R-rated, X-rated or refused classification if it were on film or video. So some material that is legal for adults to see on film and video is illegal for Australian ISPs to host on the Internet. But, in practice, adults and indeed children in Australia have easy access to a vast range of pornographic materials on the Internet via overseas ISPs.

This is why virtually all pornographic material on the web is from abroad. There are no sanctions in practice because the IT industry has convinced almost everyone that to attempt to stop it would be unworkable or prohibitively expensive. But the ISPs have pulled the wool over our eyes in a so-far-successful attempt to protect the profits they derive from the huge amount of pornographic material that is downloaded daily. Apart from strident claims that ‘it won’t work’, the ISPs have not been able to back up their position.

The Institute’s research demonstrated firstly that exposure to pornography on video and the Internet is widespread amongst teenagers (see the table). It also carried out a thorough review of the literature on the effects of exposure to pornography and determined that the research evidence is sufficient to conclude that frequent exposure to pornography, and especially violent pornography, is probably responsible for an increase in sexual aggression, and certainly strengthens attitudes that are more accepting of sexual coercion and rape.

While little research has been carried out on minors, for obvious reasons, it is reasonable to conclude that teenage

males are likely to be at least as strongly affected by exposure to violent pornography as the young men on whom much research has been conducted.

In our view, the research literature’s documentation of significant associations between adult use of certain types of pornography and sexual aggression is of real concern. It is likely that similar relationships exist among teenagers: consumption of some types of pornography is associated with sexually aggressive attitudes and behaviours. This association may be particularly strong for the four to five percent of 16 and 17-year old boys in our study who watch X-rated videos and view Internet sex sites every week.

What is pornography?

If there is one crucial point that the Institute’s research attempted to make, in part through its content analysis of pornography, it was that a distinction must be drawn between what may be called ‘mainstream pornography’ (the sort of material that is permitted on X-rated videos) and what the authors have dubbed ‘violent and extreme pornography’. The latter, which is easily

and freely available on the Internet, includes pictures showing women being raped, acts of bestiality and extreme fetishes such as coprophilia.

The authors took the view that while X-rated videos routinely portray sex in ways that are dehumanising and degrading to women, the existing video classification and regulatory system is about right, and it would be futile to attempt to use the censorship classification system to address these broader aspects of gender relations in Australian society.

However, there are strong grounds for concern about exposure of children to some of the depictions of violent and extreme pornography on the Internet. The reports call for mandatory filtering of pornographic content by Australian ISPs.

The reports, while attracting strong support in the community, have been criticised by two groups – libertarians and the ISPs themselves.

Some libertarians have attempted to characterise the authors as wowsers, although the Institute’s track record on issues such as family structure makes this

Newspoll survey of 16-17 year olds (%)

Respondent gender	Boys	Girls
Watching X-rated videos is widespread among boys	84	84
Watching X-rated videos is widespread among girls	15	4
Personally watch X-rated videos	73	11
...at least monthly	21	0
Looking at Internet sex sites is widespread among boys	88	83
Looking at Internet sex sites is widespread among girls	16	7
Accidental exposure to sex sites on the Internet	84	60
Deliberate exposure to sex sites on Internet	38	2
...at least monthly	11	0

difficult to sustain. Moreover, the reports call for a *liberalisation* of laws governing Internet porn. As long as it is reasonably certain that children are not being exposed to pornographic material, the authors support the hosting of X-rated material on Australian ISPs accessible to adult users who can verify their age.

There are two strands to the libertarian argument. The first is that no-one should have the right to determine what people see, and if parents are concerned they should monitor their children more closely. According to this logic, we should have a pornographic free-for-all on video, including pictures of rapes and bestiality and, indeed, child pornography, and the decision to look at it is up to the consumer. If parents are concerned then they should ensure that their children do not buy such videos.

And why stop at videos? Why not have a pornographic free-for-all on day-time television? The answer, of course, is that there is a social as well as a personal interest in controlling this sort of material.

Yet it is surprising how many ‘progressive’ people appear to hold the libertarian view unthinkingly, including prominent academic commentators such as Kath Albury and Catherine Lumby. Ultimately it is a position lacking subtlety and discernment as it fails to distinguish between types of pornography. Nor does it make a distinction between the impacts of violent and extreme pornography on adults, who have a sexual frame of reference for understanding what they might see, and children, who do not.

The China syndrome

A second libertarian objection might be called the China syndrome. The argument goes like this. China censors the Internet for political content and pornography; if we allow mandatory censorship of the Internet in Australia we are in danger of going down the same path. Government will begin to encroach on our political freedoms.

A glance at the table should dispel this view. The Chinese government censors

books, films, TV, videos and the Internet for both political and pornographic content. The Australian government does not censor any of these for political content but effectively censors all but the Internet for pornography.

It is hard to see why the extension of effective censorship to Internet pornography (which is the subject of censorship laws already) will bring on an authoritarian regime in this country. On paper, we already have censorship of the Internet in Australia; it is simply not enforced vigorously for perceived practical reasons. The fear of political censorship of the net in Australia has a hint of paranoia about it.

People across the political spectrum have been persuaded that there is something sacrosanct about the Internet. For many on both the left and the right it is seen as the people’s mode of communication, an anarchic network that has evaded control by big corporations. Others see it as the frontier of a technological nirvana and the motor of economic dynamism for decades to come.

This starry-eyed view of the Internet has been exploited for all it’s worth by the industry and has made it largely untouchable. But in the end the Internet is no more than a useful tool for communication and the ISPs are just another industry that should be regulated for the social good like any other. It is bizarre that we have ceded control over social policy on an issue as important as youth exposure to violent and extreme pornography to a collection of IT nerds.

The Institute commissioned Newspoll to survey parents of 12-17 year old teenagers. As the tables on the next page show, it is apparent that parents are very anxious about easy access to Internet pornography with 85% expressing concern about their children seeing pornography on the Internet and 61% saying they are ‘very concerned’.

Three quarters of parents of teenagers say that the Federal Government is not doing enough to protect children from Internet pornography and 93% would support automatic filtering of pornography going into homes. ■

The politics of porn

The Institute’s reports on youth exposure to pornography could have been a nasty trap for the Government. The Communications Minister Senator Alston is on the record declaring that the Online Content Co-Regulatory Scheme is highly effective and is “making the Internet safer for Australians and protecting Internet users – especially children – from unsuitable and offensive material”. As one Institute staffer observed: “This is a no-brainer for Labor”.

When the results of our study were carried on the front pages of the *Sydney Morning Herald* and *The Age* on March 3rd Senator Alston dangled one foot in

Forms of censorship in Australia and China

	Australia		China	
	Political	Porn	Political	Porn
Books		✓	✓	✓
Films		✓	✓	✓
TV		✓	✓	✓
Videos		✓	✓	✓
Internet		?	✓	✓

Parental concern about children seeing Internet pornography (%)

Response	%
Very concerned	61
Somewhat concerned	20
A little concerned	5
<i>Total concerned</i>	<i>86</i>
Not concerned	14
Don't know	1

Source: Newspoll for The Australia Institute

Whether the Federal Government is doing enough to protect teenagers from pornography on the Internet (%)

Response	Total	Male	Female
Should be doing a lot more	60	54	65
Should be doing a little more	15	11	18
<i>Total more</i>	<i>75</i>	<i>65</i>	<i>83</i>
Is doing enough	13	17	9
None/Don't know	13	18	8

the trap by having his spokesperson criticise the reliability of the Newspoll survey.

But within hours of the first news reports, Labor's IT spokesperson Senator Kate Lundy issued a media release saying that while exposure of children to pornography is a terrible thing nothing can be done about it, other than urging parents to do better.

Senator Lundy then batted all week for the IT industry. In the opinion pages of the *Canberra Times* she argued strongly against the Institute's proposal to regulate the Internet to stop children seeing violent and extreme pornography. The only answer to net porn is to ask parents to be vigilant, she wrote.

While Labor was listening to the ISPs, the Prime Minister understood instinctively the politics of porn, including the deep concern among parents and the backbench. Over-ruling his Communications Minister, he told his caucus that the current system is obviously not working, the

Government takes the issue very seriously and tougher measures will be investigated.

A no-brainer for Labor has turned into a nightmare waiting to happen. Now when the Government introduces new laws to protect children from violent and extreme pornography Labor, having declared that they won't work, appears locked in to opposing them.

Just how close is Senator Lundy to the IT industry? Three months ago she released under her own name a paper calling for "a strong legislative regime specifically addressing spam" on the Internet. Decrying the fact that "users are left to their own devices" to deal with unsolicited emails, the paper canvasses a range of legislative means for dealing with spam which should "play a crucial role in addressing the problem".

It is hard to understand why Senator Lundy favours a strong legislative regime to deal with spam, which is annoying, but flatly opposes legislation to deal with pornography, which is far more insidious. She maintains that we

The PC's blind spot

In its recently released analysis of subsidies to Australian industry by Commonwealth and State governments the Productivity Commission concluded that more than \$14 billion in assistance was granted by all levels of government in 2001-2002.

While the Commission estimated that the Commonwealth Government spent \$3.9 billion on industry assistance, we wondered about what the PC failed to include in its list of subsidies.

In the section titled 'health and community services' the Wide Bay Burnett Structural Adjustment Program is listed with a total cost of \$100,000. But no mention is made of the estimated \$2.3 billion subsidy provided to the private health insurance industry through the Howard Government's 30 per cent rebate.

The \$2.3 billion in tax rebates to the private health insurance industry exceeds the Howard Government's total tax expenditures for the manufacturing, mining, agricultural and services sectors combined.

C'mon Productivity Commission, we thought you were supposed to be the hard-headed exposers of economic inefficiency. OK, maybe the money goes into the pockets of customers rather than directly to the funds themselves, but we bet the car industry would not be complaining if the Federal Government promised a 30 per cent rebate on all vehicle purchases.

Hey, that's not a bad idea. A 30 per cent rebate on the cost of new cars would take the pressure off the public transport system and give people more choice!

can legislate to stop spam, but laws to stop pornography would be "unworkable" and "inappropriate".

Why Labor would allow its social policy on such a sensitive issue to be determined by its IT spokesperson is a mystery. ■

Should sports stars get a free ride?

Sports stars including Lleyton Hewitt, Cathy Freeman and Shane Warne have benefited from taxpayer funded assistance via the Australian Institute of Sport. The Institute has proposed a HECS-style scheme under which sports stars who make the big time would be required to pay it back. Richard Denniss explains.

Despite the fact that public assistance can run into the tens of thousands of dollars per year, AIS graduates, unlike their university counterparts, are not required to make any contribution to the cost of their training once they succeed in turning their elite sporting performances into elite incomes.

Athletes at the top of popular sports have the capacity to earn extremely high incomes. While average Australians with full time jobs earn around \$40,000 per year, and university graduates begin their HECS repayments at only \$24,000 per year, to qualify for the top 50 sports earners in Australia required an income in excess of \$1 million in 2002. Between them the graduates of the AIS in the top 50 sports income earners earned more than \$50 million dollars in 2002.

The scheme put forward by the Institute would require sportspeople who sign up to AIS programs to begin to repay their debt once their incomes reached \$100,000. University graduates are required to begin to repay their HECS debts when their incomes reach \$24,365.

The objective of setting the repayment threshold at such a high rate is to ensure that young people are not deterred from participating in elite sport. Many elite sportspeople, especially ones training for sports that attract less attention from sponsors, are unlikely to earn significant income from their sports

training. By setting the threshold at a high level the scheme ensures that it is only those athletes who can convert elite sporting success into elite incomes who would be asked to make a contribution.

An important issue in designing a HECS type scheme for athletes is the fact that many highly paid graduates of the AIS earn their incomes outside Australia. Many sportspeople, particularly soccer players, are residents of other countries. Pat Rafter has shifted his residency to Bermuda in order to avoid paying taxes in Australia.

To overcome this problem it would be necessary to ask all athletes offered scholarships by the AIS to sign a contract which commits the athlete to making contributions in accordance with the repayment thresholds. The contract would commit athletes to making a contribution to the costs of their training in years in which their income exceeded the threshold.

The Commonwealth Government, while not dismissing the idea of a HECS type scheme for athletes, has claimed that it would be too administratively difficult. However, given that athletes' agents manage to monitor the earnings of athletes in order to extract their commission, it should not be excessively difficult for the Government to ensure compliance.

While the amount of money raised from such a scheme would not be substantial in the context of the entire Commonwealth budget, the opportunity exists to raise sufficient funding to either increase the number of scholarships to elite athletes or to improve funding for encouraging participation in community sport. Similarly, given the role model status of athletes in Australia it is important that welfare recipients see that 'mutual obligations' are not imposed only on the vulnerable in society. ■

Ex-AIS athletes among the top 50 sports earners 2002

Ranking	Name	Sport	Estimated gross earnings	Period of AIS support
2	Lleyton Hewitt	Tennis	\$18,800,000	1993-1994
4	Mark Viduka	Soccer	\$7,500,000	1992-1993
10	Craig Moore	Soccer	\$3,750,000	1992-1993
14	Marco Bresciano	Soccer	\$3,000,000	1997
14	Josip Skoko	Soccer	\$3,000,000	1992-1993
21	John Aloisi	Soccer	\$2,000,000	not known
21	Robbie McEwen	Cycling	\$2,000,000	1994-1996
29	Cathy Freeman	Athletics	\$1,720,000	1992-1995
30	Shane Warne	Cricket	\$1,700,000	1990-1992
31	Glenn McGrath	Cricket	\$1,500,000	1992-1993
31	Kevin Muscat	Soccer	\$1,500,000	not known
31	Lucas Neil	Soccer	\$1,500,000	1992-1995
40	Adam Gilchrist	Cricket	\$1,300,000	1991
40	Brett Lee	Cricket	\$1,300,000	1995-1996
47	Brett Emerton	Soccer	\$1,000,000	1995-1996
47	Hayden Foxe	Soccer	\$1,000,000	1994
47	Michael Klim	Swimming	\$1,000,000	1994-2000



Young run from health cover

The Howard Government's scheme to promote private health insurance is unfair and in a mess, as the Institute has been saying for some years. Richard Denniss takes up the story.

Young people continued to desert private health funds in their thousands in the three months to December 2002. The Institute has been keeping a close watch on the quarterly figures published by the Private Health Insurance Administration Council (PHIAC). As shown in the figure on the next page, the number of people under 40 has been declining steadily while people over 50 continue to join up.

Changes in the age composition of the membership should be as much a concern to the Government as it is to the private health insurers. Older people incur substantially higher health costs than younger members. This is due to a number of factors including the increased likelihood of hospitalisation, the increased likelihood of post-operative complications and the high cost of treatments most likely to be required by older health insurance customers.

According to analysis by Dr Jim Butler of the ANU, some young people are paying nearly \$6 in premiums for every \$1 they can expect to receive back from their private health insurer, and on average people do not get a dollar back for every dollar they put in until they reach their early 50s.

Changes to the private health insurance system, particularly the introduction of the Lifetime Health Cover rules, were designed explicitly to reduce the average age of health fund members. Younger people were encouraged and coerced into joining in order to lower the average age of members, and in turn, to reduce the average cost of each member to the health funds.

As the average age of members begins to climb once again the financial pressure on the private health insurers is resulting in higher insurance premiums. Higher insurance premiums in turn drive away young, relatively healthy members, resulting in the same unsustainable cycle

of premium increases and declines in membership that the current system was designed to fix.

The end of the gym shoe

In recent weeks the Government has announced an attempt to reduce the financial pressure on health insurers and increase the fairness of health funding by limiting the rights of the health funds to offer ancillary benefits with peripheral links to health such as golf clubs, camping equipment and classical music CDs.

At present there is no limit to the kind of benefits that health insurers may choose to offer their customers and the funds might just as well offer a free tank of petrol (perhaps to go on a relaxing holiday) as massages and gym club memberships. Lifestyle benefits, such as those listed above, have been used to induce people into taking out private health insurance.

Such an approach to marketing may be inefficient but should not normally be of concern to the Government. However, given that the Commonwealth provides a 30 per cent rebate on the total cost of private health insurance premiums, ancillary benefits increase the cost of the rebate to the Government.

More than any other industry, health demonstrates both the need for and effectiveness of government intervention.

The Australia Institute has long been a critic of the current system which provides a 30 per cent rebate to people who can afford to take out top private

health insurance covering gym shoes and golf equipment while low income earners who cannot afford private health insurance do not even have access to subsidised dental care.

In announcing its intention to address this problem, the Government stated that the health insurers will need to come up with a suitable arrangement. This could be a problem. If, under pressure from the health minister, the health funds come to an agreement to limit the types of services offered to customers will they be engaging in collusive behaviour as defined by the Trade Practices Act?

The market failures in the health industry are both numerous and fundamental.

The Australian Competition and Consumer Commission (ACCC) will need to assure itself that collusion has not occurred and certify that the changes are in the interests of consumers. The ACCC, whose role is to protect consumers rather than design government health policy, may rule that an agreement between health insurers is anti-competitive and does not deliver benefits to consumers. If so, ancillary benefits will continue to drive up the cost of both health insurance premiums and the 30 per cent private health insurance rebate.

A solution to this problem would be for the Health Minister, Senator Kay Patterson, to change the law to exempt a wide range of ancillary benefits from the 30 per cent rebate. While this approach has the benefit of certainty and timeliness and places the Government, not the private health insurance

industry, in charge of the health insurance system it is not the preferred course of action. The rebate should be abolished forthwith.

The health market

The effectiveness of the Australian health system is underpinned by the extent of government involvement in the industry. More than any other industry, health demonstrates both the need for and effectiveness of government intervention in the industry.

The market failures in the health industry are both numerous and fundamental. Patients do not have access to good information; individuals faced with unanticipated illness do not have a ‘choice’ about whether they need treatment or not; the pharmaceutical industry has substantial market power and the necessarily rigorous restrictions on who can practice medicine provides doctors also with substantial market power.

The Government can, and should, play a central role in both the design and the delivery of health care services. While the private sector has a role to play in

the provision of some services, it is important that, from a policy perspective, the tail does not wag the dog.

Recent steps to limit the extent of ancillary benefits covered by the 30 per cent rebate constitute a small (very small) step in the right direction. However, at the same time the Government is overseeing the collapse of bulk billing.

Trading in the PBS?

The Australian health system is highly efficient by world standards. Our universal system of Medicare avoids the problems faced by many countries where those who need health insurance most, the elderly, the sick and the poor, are unable to afford it.

The Pharmaceutical Benefits Scheme (PBS) has been described by an American Professor of Public Health, Richard Laing, as ‘the best drug pricing system in the world. Australia is the one country which seems to have got it right, that what you want to do in controlling costs is pay what the drugs are therapeutically worth’. This is why the international drug companies don’t like the PBS.

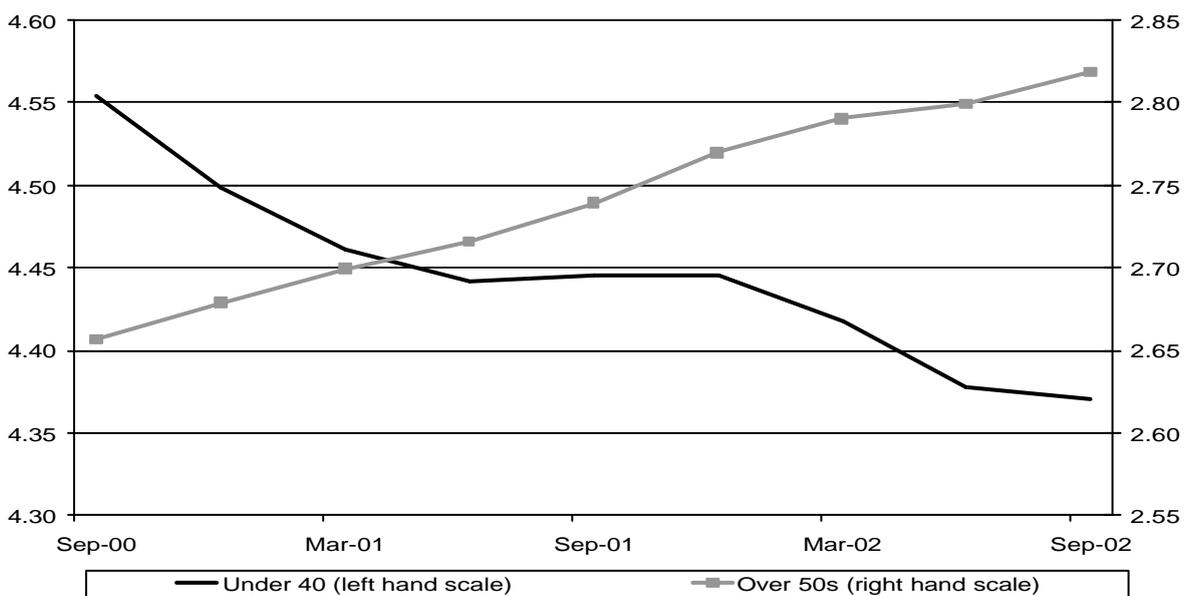
However, as with our universal health insurance system, the effectiveness of the PBS is being undermined by a range

The effectiveness of the PBS is being undermined by a range of government decisions.

of government decisions. The Australia Institute is currently preparing a discussion paper which will consider the threats posed to the PBS by the proposed free trade agreement with the U.S.

The Government has referred repeatedly to the potential benefits to Australia of achieving greater access to the U.S. agriculture market. There has been virtually no public debate about the costs to Australia of meeting the U.S. demands for greater access to some Australian markets, including increased deregulation of our pharmaceutical market. ■

Hospital Cover Membership by Age (millions)



Source: PHIAC

Grog and cigs up?

A recent web paper published by the Institute entitled *Tax Flight? An analysis of the ‘duty free’ system in Australia* considered the rationale for ‘duty free’ arrangements and proposed a range of reforms designed to improve equity and increase revenue. Its author, Richard Denniss, outlines the arguments.

The sale of ‘duty free’ tobacco, alcohol and other goods results in a loss of more than \$300 million each year in revenue to the Commonwealth Government. If tourism numbers, both into and out of Australia, grow as rapidly as forecast then this lost revenue is likely to increase by around 10 per cent per year.

The term ‘duty free’ is, for the most part, a misnomer. While goods purchased from ‘duty free’ stores are indeed free of customs duties, the rate of duty imposed on imports in Australia, where it is levied at all, is usually only 5 per cent. The savings that are achievable from duty free stores arise mainly from avoiding large excises on alcohol and tobacco and the GST (levied at 10 per cent).

As indirect taxes such as the GST are levied primarily to raise revenue or discourage certain kinds of consumption, the rationale for the existence of duty-free shopping has disappeared.

Savings associated with some duty-free purchases can be substantial. For goods where excise is payable, such as tobacco and alcohol, savings can be more than 40 per cent. For example, a carton of Peter Jackson Extra Mild cigarettes which retails for \$60.65 can be purchased duty free for only \$33.50, a saving of 45 per cent.

Duty-free stores are estimated to turnover between \$1.1 billion and \$1.3 billion per year. Of this, around 20

percent of turnover is associated with duty-free stores located in airports. There are more than 150 duty-free shops that are affiliated with the Australian Duty Free Association employing around 4,500 people. The size of the duty-free industry is directly related to the number of travellers, both to and from Australia, a number which is increasing rapidly.

There is no obvious reason to provide tax-free shopping to some Australians simply because they temporarily leave the country. This is particularly so when it is recognised that those Australians who travel abroad for holidays or on business tend to be wealthier than average. Cheap cigarettes and alcohol are not available to those who cannot afford to travel overseas.

It is generally believed that nowadays international air travel is available to all Australians, but in fact it is dominated by the wealthy. The ABS household expenditure survey shows that those in the highest income quintile (20 per cent) spend more than five times as much on international holidays as those in the lowest quintile. In fact, people in the top 20 per cent of incomes spend almost twice as much on international holidays as those in the next highest income group.

These figures refer only to holiday travel and do not reflect expenditure on business travel. It is likely, however, that high-income earners also dominate the international business travel market.

Furthermore, a major objective of placing high taxes on tobacco and alcohol is to discourage their consumption on social and health grounds. It is therefore difficult to understand the rationale behind reducing the tax payable on these substances when purchased at an Australian airport rather than at an Australian bottle shop or supermarket.

While duty-free arrangements for international travellers are common around the world, in recent years substantial changes have occurred. Increased economic interdependence in the European Community has led to the abolition of duty-free arrangements for travel within the European Union. These changes were opposed by industry advocates.

The rationale for introducing the GST was to improve the simplicity and equity of the indirect tax system. The existence of duty-free shopping for Australian residents creates both increased complexity and reduced fairness. A number of policy responses is available to enable the Federal Government to reduce or eliminate the problems associated with the current system.

While the simplest solution would be to abolish completely duty-free shopping in Australia, such a move would see foreign visitors to Australia decide to buy certain goods at duty-free shops outside of Australia. For this reason, the following amendments to the current arrangements are proposed. They are summarised in the table. ■

Proposed changes to duty-free arrangements

	Australian passport holders	International visitors
Goods purchased in Australia	No duty-free entitlement	Existing arrangements for duty-free stores. Abolition of the Tourism Refund Scheme
Goods purchased abroad	Existing \$400 per adult duty-free entitlement but exclude alcohol and tobacco	Existing arrangements except for the abolition of duty-free importation of alcohol and tobacco

Who should pay for maternity leave?

Paid maternity leave is back on the agenda. Here Bruce Chapman and Rishab Sethi of the Economics Program, RSSH at the ANU respond to Senator Natasha Stott Despoja's critique in the last Newsletter of the proposal for a HECS-style scheme for maternity leave.

The Human Rights and Equal Opportunity Commission (HREOC) released a proposal for a national system of paid maternity leave (PML) in their report, 'A Time to Value', in December 2002. Under the HREOC scheme, eligible women would be entitled to 14 continuous weeks of PML, funded by the Federal Government at a level that is the lesser of the Federal Minimum Wage or their average weekly earnings from all jobs.

Paid maternity leave has been hotly debated in the Australian media and in political circles over the past year. In the September 2002 Institute Newsletter, Bruce Chapman proposed a funding mechanism similar to the Higher Education Contribution Scheme (HECS). On the rationale that all three of parents, employers and society benefit from PML, Chapman argued that all three should contribute, in a manner commensurate with their benefit.

The benefits of PML to mothers and families can be divided into a range of physical, mental and psychic health issues and into matters of financial security and the reduction of discrimination. If PML influences employees to return to work, firms are able to maximise returns to on-the-job training. Society benefits from a potentially larger, and healthier, workforce and from higher productivity and increased tax revenue when women return to paid work.

Senator Natasha Stott Despoja responded with several key criticisms of this proposal. The first is that a HECS-style system for PML further 'perpetuate[s] the trend toward a user-pays community', which is true. However, a user-pays community is also more equitable in this case.

That is, it is arguable that an important part of the benefit of a post-natal period

of rest and recovery accrues to mothers, rather than to society generally. Government should still contribute, but a wholly taxpayer funded PML scheme unfairly results in non-parents and other taxpayers subsidising a private choice on which they receive only a partial return. The absence of means-testing suggests that many families receiving the benefit will be better off than significant numbers of the taxpayers funding it.

Issues similar to these underlay the move from 'free' (that is, entirely taxpayer funded) universities to a 'user-contributes' scheme – but one that with HECS protects students whose future incomes are low. This corresponds well with the cross-subsidisation scenarios implicit in government-only funding of PML.

Second, Senator Stott Despoja argues that women take longer than men to repay HECS debt and income-contingent loans will simply add to this debt burden. However, a PML loan can be recorded against the tax file numbers of both parents, if present, and repayments made in a manner proportional to each income. This threshold should be reasonably high, say, around \$35,000 per annum.

In the case of the separation of parents the father's obligation would remain. For the small minority of women choosing to have children with the father absent, the obligation would be on the mothers alone, remembering that repayments are only required if their future income is relatively high.

Senator Stott Despoja argues that the benefits of PML cannot be construed strictly in economic terms, but this is also the case with education, health-care, social security and most public works projects. All that we are suggesting is that where there are any type of private benefits from non-means tested policy, it is reasonable to have contributions from the beneficiaries but only when and if they can afford it.

Finally, in terms of leave duration and loan amount, a scheme with a HECS-type component provides more flexibility. The HREOC and Senator Stott Despoja argue for 14 weeks paid leave. However, currently the average take-up length of unpaid maternity leave in Australia is 42 weeks. Obviously many women want more than 14 weeks, and an optional HECS-type scheme offers this possibility. It is also the case that the suggested wage in the HREOC model is quite low, and could be increased with the promise of a future contribution from those benefiting.

A HECS-type of loan could be used as a top-up to a given level of government support. While this arrangement is not completely similar to having families contribute to any PML, it is an option that increases potential funding and choice, and in a fair and equitable way. ■

The Australia Institute

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Youth and pornography in Australia: Evidence on the extent of exposure and likely effects, by Michael Flood and Clive Hamilton, Discussion paper 52, February 2003

Funding sport fairly: An income-contingent loans scheme for elite sports training, by Richard Denniss, Web paper, February 2003

Missing the target: An analysis of Australian Government greenhouse spending, by Paul Pollard, Discussion paper 51, January 2003

Downshifting in Australia: A sea-change in the pursuit of happiness, by Clive Hamilton and Elizabeth Mail, Discussion paper 50, January 2003

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GROWTH FETISH

Clive Hamilton

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