

Mr CLARK (Balwyn) - In speaking to the motion for the adoption of an Address-in-Reply to the Speech of His Excellency the Governor, I express my loyalty and the loyalty of the constituents of the electorate of Balwyn to Her Majesty Queen Elizabeth II who is represented in Victoria by His Excellency, Dr Davis McCaughey.

I congratulate you, Sir, on your election as Speaker and I express my appreciation of the firm and fair way you have presided in the House since your election. I also congratulate your deputy upon his election.

I also wish to acknowledge the record of my predecessor, the Honourable James Halford Ramsay. Jim Ramsay was the member for Balwyn from May 1973 until the recent election. He was Parliamentary Secretary of the Cabinet from 1976 until 1978. He was the Minister of Labour and Industry and Minister of Consumer Affairs from 1978 until 1981, and he was Minister for Economic Development and Minister of Labour and Industry from 1981 until April 1982.

In his career to date, Jim Ramsay has made a significant contribution to the economic development of Victoria, a contribution which I understand he now plans to continue in the private sector. He is well known in the electorate of Balwyn, as I believe he is in this Parliament, as a man of principle and integrity and as a man who is kind, thoughtful, and generous to all. If any of us could even half live up to Jim Ramsay's standards in those regards, we would be doing very well indeed.

I place on record my personal debt of gratitude to the generous support that Jim Ramsay and his wife, Dorothy, have shown to me and my wife, Karin, since I was chosen by the Liberal Party as the candidate for Balwyn. I am sure all honourable members would wish Jim Ramsay well in his new career.

I have been elected by the people of Balwyn to represent them in contributing to the good government of this State. In this, my first speech to the House, I want to set out what I believe to be some of the fundamental objects of good government and the principles by which government should be conducted. In doing this I will apply some of those principles to certain actions of the present government. Some of these actions are referred to in His Excellency's Speech and some, for understandable reasons, are not.

It seems to me that there are three ultimate objects of government: firstly, to make and enforce laws to govern the relations between persons within its jurisdiction; secondly, to provide or procure the provision of services to those persons; and, thirdly, to defend those persons from external, aggression. Of course, this House is not concerned with the third of these objects because the naval and military defence of Victoria is the responsibility of the Commonwealth. However, the other two objects are certainly our concern.

In pursuit of its objects, government must perform certain other functions, the most notable of which are protecting itself from subversion, regulating its own structure, and providing itself with the resources to achieve its objects. The whole of politics consists of deciding questions of how to pursue and achieve the objects of government and how government should carry out its other functions.

In grappling with such political questions over the course of history, human beings have evolved and are continuing to evolve principles which experience has shown are necessary or desirable for good government. Some of these principles are almost universally recognised and I hope that

no honourable member would dissent from them. Nonetheless, I would like to mention some of them because it is easy to forget them in the heat of the moment.

The first principle I would mention is the rule of law, namely, that the State should establish and enforce laws which define the freedoms and rights of individuals. Furthermore, such laws should be enforced fairly and with natural justice. This requires the separation and independence of the Judiciary from other areas of government. It also requires that laws should not be changed with retrospective effect to the detriment of individuals.

The second principle is freedom of the person, that is, the freedom of the person from physical assault, except for actions which are permitted to prevent or remedy a breach of the law or to carry out sanctions which the law prescribes. The third principle is freedom of religion. That is, the freedom of each individual to seek God in the manner he or she thinks fit, without sanction or discrimination by the State for so doing.

The fourth principle is freedom of speech. That is, the freedom to argue whatever propositions an individual wishes to argue, without sanction or discrimination by the State, so long as the individual does not argue such propositions in a manner which is insulting or abusive or which is likely to lead others to illegal acts.

The fifth principle is freedom of marriage. Marriage should be permitted by the State and the parties to a marriage should not be subject to any discrimination by the State by reason of their marriage. The sixth principle I would mention is the ownership of property. I say this with some hesitation, but I am mindful that honourable members opposite say that they have renounced the socialisation of the means of production, distribution, and exchange as one of their objectives, and I think even honourable members opposite would agree that individuals should be permitted to have the control of certain material objects to consume and enjoy. It follows from the right of ownership of property that a person should not be deprived of property by the State, except as authorised by law and on just terms.

The seventh principle is that it is a duty of government to help those in need to the extent and in the manner in which government can help, and it is a duty of individuals to contribute fairly to the provision of that help if called upon. The eighth principle is constitutional democracy. In other words, the institutions of government and the powers of those institutions should be defined under a constitution, whether or not written, which provides for legislative and executive decisions to be made by persons chosen under a system which is calculated to give representation to the wishes of the people.

The ninth and final generally accepted principle which I wish to mention is that of non-discrimination, namely, that the State should not govern or make laws with the intention of adversely affecting individuals by reason of their race, ethnic or cultural background, parentage, or gender.

These are principles to which all honourable members subscribe. They are principles which unite us in support of the system of government under which we live, and they are principles that honourable members should always bear in mind when making political decisions. However, even within these principles there remains a great deal of room for debate about how a government should achieve its objectives. Therefore, I shall consider some further principles, which, although they may not command general support, are similar in importance to the principles I have just described.

The first of those principles is that of individual liberty and free enterprise. By individual liberty I mean that an individual should have complete freedom of action, subject to the principles to which I have referred and within a set of efficient property, contract and competition laws. This freedom of action should be constrained only for an individual's own good where their actions would be otherwise likely to result in their death or to put them in need of either the voluntary assistance of others or the assistance of the State.

The second principle to which I shall refer is that of limited government. Government should assist individuals, only where those individuals are in need, and only if their need cannot be met by the commercial or voluntary actions of others. Government should provide services to the public only if the benefits derived from the service outweigh the cost of provision, and not if it is practicable to provide the service on a user-pays basis. A user-pays basis will be impracticable in the sense to which I refer if the costs of collecting a charge from those who use a service outweigh the greater efficiency that would be obtained from so charging, or if the benefit of the service is derived by people who cannot be deprived of the benefit if they do not pay the charge.

The third and final principle I want to mention is that of fair taxation—namely, that a taxation system should aim to impose an equal, subjective burden on everyone; and that burden should not vary depending on what the individual does. The only exceptions to this approach should be that taxation penalties can be applied for things which the State is entitled to prohibit or compel, and that taxation incentives or relief can be applied for things which the State is entitled to procure, and can be given to people to whom the State is entitled to provide assistance.

Since these latter three principles may not be readily accepted by all honourable members opposite, I shall spend some time discussing the rationale of these principles and applying them to various actions of the government. The rationale for individual liberty and free enterprise is that human experience shows that the well-being of everyone is promoted if individuals are permitted to do things for themselves, and to trade freely and to enter transactions, subject to the principles that I have mentioned, within an efficient set of property, contract, and competition laws.

There are three interlinked reasons why individual freedom is desirable. The first reason is that human beings tend to give first attention to their own needs and the needs of their families; and in the long term humans will work more productively if they act to meet those needs. That is because humans attach a higher value to their own needs and the needs of their families than they attach to the needs of others. That may be wrong, and perhaps we should try not to act in that way. However, it is a fact that, whatever governments may decree, humans will continue to give preference to their own needs and the needs of their families, and any society that tries to build a utopia on Earth, assuming a universal and long-term dedication to the common good, will fail. The experience of the entire Eastern Bloc is evidence of that proposition.

The second reason why individual freedom is desirable concerns information. Usually we know our own needs and preferences better than others know them; and each of us tends to know the world in our vicinity better than it is known by those who are more remote. Even if we all had as much regard for the well-being of others as we have for our own well-being, generally we cannot make decisions about what suits other people as well as those people can make those decisions for themselves.

If decisions are imposed on people about what goods and services they can or cannot consume or about what things they can or cannot do, those decisions are likely to be less satisfactory than decisions made by individuals themselves from the options available under the system of free

enterprise. Likewise, beyond a certain point, central direction of an enterprise is likely to be less efficient than more local direction; and free enterprise will best determine the optimum level of central direction based on what is most profitable. In addition, free enterprise establishes markets and prices which are better transmitters of information about demands and resources than a nonprice system.

The third argument for the benefits of liberty and free enterprise is that humans welcome opportunities and challenges and the freedom to determine their own actions. Humans work harder and better to meet goals they have set themselves than to meet goals set by others which they have not endorsed. Freedom of spirit and freedom of action are responsible for creativity in life, which in turn is responsible for art, literature, philosophy, and science, and for all the other achievements of human history.

These are the three reasons why individual freedom is a driving force that benefits humanity; but those reasons do not give a full explanation of that benefit. This driving force will work productively only if it is channelled by laws that direct it to beneficial ends. If there were no property rights, so that objects could be either seized or destroyed at will, if there were no contract laws, so that no arrangement or representation need ever be honoured, or if there were no competition laws, so that collusions could operate unchecked, then free enterprise and individual freedom would be more destructive than constructive.

Most of the apparent failings of the free enterprise system are not failings of the free enterprise system but of the law which channels free enterprise. The failings are our failings, not the failings of the private sector. There are three reasons for those failings. The first reason is that our economic understanding, which has developed greatly over the past 200 years, is still developing.

A major area where it is becoming apparent that our laws are defective is that of public property and externalities. For many years we have allowed our public property, such as our rivers and lakes, our coastlines, our oceans and our atmosphere, to be the dumping place for the noxious by-products of private activity. Those by-products have also affected both the property and personal health of individuals. Sir Rupert Hamer's Liberal government was the first government to begin to tackle those problems seriously, and we must continue to develop laws that prevent the true cost of private activity being inflicted on others.

The second reason why our laws fail to channel free enterprise properly is that Parliament is prevailed upon to pass laws that benefit some people at the expense of others. Private statutory monopolies and many labour laws are prime examples of this. To overcome this problem, honourable members must always be on their guard to ensure that they do not simply accept the reasons for legislation put forward by particular lobby groups, and thus overlook the public interest, for which no-one is lobbying.

The third reason why our laws can fail to channel free enterprise properly is that the government of the day may get the idea into its head that it can win popular support by enacting a law that attacks some aspect of the free enterprise system. The so-called prices peg legislation, which the government regrettably foreshadowed in the Governor's Speech, is a clear example of that. Contrary to what was said by the honourable member for Bentleigh, such legislation is at best useless in holding down prices, and is an administrative burden on businesses. At worst, such legislation will lead to business bankruptcies and a shortage of goods. The supporters of such legislation fail to realise that price increases in a competitive industry are not due to the whim of

an individual but are the result of either a sudden increase in demand or cost pressures on the industry. In the case of grocery price increases, the cost pressures are obvious, namely, the tax burden imposed by the government, which has increased by approximately 31 per cent in real per capita terms since it came to power, and the large wage increase which has been granted in the retail sector and which was supported by the government.

Having explained the importance of free enterprise and individual liberty, and having explained the laws that should channel it, I should rule out any misconception honourable members may have that I am arguing that free enterprise and liberty should be the start and finish of our way of life in Victoria. I am not saying that. There are many aspects of good government to which the principles of free enterprise cannot apply. Free enterprise cannot be the ultimate enforcer of the law. Free enterprise cannot be the final determinant of either the extent or the type of help necessary for those in need, nor can it practicably be the ultimate provider of a number of valuable services which the State provides. However, in its place the free enterprise system has proved to be the engine of development and prosperity, not only in this State but also throughout the world.

The corollary of free enterprise and individual freedom is that governments should not provide those services which individuals can provide for themselves or for each other. In part this is because free enterprise is better for the reasons I have mentioned and in part it is because democratic government suffers some particular handicaps in providing services.

The first handicap democratic government suffers is that there is an emphasis on following due procedure and this emphasis creates a bias which penalises mistakes more than it rewards successful achievements. This applies to governments as a whole and it also applies to individual public servants. The bias, in turn, leads to the avoidance of risk, even where the value of the outcome from taking the risk is expected to be greater than the value of not taking the risk.

I am aware that attempts are being made to deal with the problem by setting goals against which public sector performance can be measured, but setting such goals is made difficult because there is no universal measure of performance in the public sector, such as profit in the private sector.

Furthermore, because it is difficult to set performance targets and because governments are expected to account to the public in an objectively verifiable manner for the due spending of taxpayers' money, it is difficult for governments to make staffing decisions-to fire or to promote people-based on performance against targets. Therefore, good performance by public servants cannot be adequately rewarded and people employed by government tend to seek the entitlements of due process more than the rewards of good performance.

The only factors which encourage a good rather than a mediocre performance are a sense of duty or the desire for job satisfaction, and experience shows that, with a number of exceptions, these factors alone are not good enough motivators to produce a result as successful as the result in the private sector.

One illustration of the poor-indeed deteriorating-performance of the State public sector in Victoria is the aggregate level of employment in that sector. Since 1982 State public sector employment has increased by 18 per cent, equal to about 50 000 people. This is in a period when the State's population has grown by only 8 per cent.

If the government could point to some increase in the level of services we receive in this State, such a massive increase might be explained, but in almost any area of services one cares to nominate—be it police, hospitals, or education—there has been no significant improvement in the quality of service provided. The only possible conclusion that can be drawn is that the massive increase in numbers has been accompanied by a significant deterioration in the overall productivity of the State public sector.

A further illustration of the unfortunate consequences of the emphasis on due procedure in the public sector comes from my own electorate of Balwyn. His Excellency the Governor referred in his Speech to the government's open space conservation program. In the suburb of Surrey Hills there is a small open space called the Lome Parade reserve. As part of the government's assets sale program, this piece of land is for sale. It is zoned as public open space and, as one might expect, there is not a great deal of competition to buy public open space. However, the Box Hill City Council has expressed interest in acquiring the land. Quite understandably, the council is not prepared to pay a great deal for the land as its ratepayers have maintained the land as a park for 75 years and the council does not have a lot of money to spare. However, it is, as I said, willing to acquire it. In those circumstances, one might expect that the government, which wanted to sell the land, and the Box Hill City Council, which wanted to acquire it, could negotiate a sale at a modest price and the situation could be resolved satisfactorily. But this is where due process comes in.

Government policy is that such asset sales must be at the Valuer-General's valuation. That is fair enough. However, the Valuer-General insists on valuing the land at a price related to residential values, even though there is no question at this stage of the land being used for residences. What is the reason for the Valuer-General's approach? The reason is that there is a court case in which it was held that, where the government compulsorily acquires land from a council and the council can replace that land only through residential purchases, residential prices should be taken into account in valuing the land acquired. That is fair enough too.

However, the absurdity is that this case of compulsory purchase, where the aim was to compensate a body that was losing its land against its will, is now being applied to a situation of a voluntary sale where the aim should be to assess the price that would fairly be payable for the land on the open market. As a result of this misguided emphasis on due process, the government has not been able to sell its land, a great deal of administrative time has been wasted, the future of the open space has not been safeguarded, and the local residents are understandably angry and frustrated.

If government cannot handle effectively a simple task such as disposing of a small piece of land, honourable members will understand why I contend that governments should stay out of service provision wherever possible.

Due process is not the only handicap faced by governments in the provision of services. The second handicap is that governments can fall back on the bottomless pit of the public purse to fund or cover their mistakes. The prospects of bankruptcy cannot be a spur to performance and, since the public is ignorant of the precise operation of any government enterprise, public reaction may be even less adverse if taxes increase to cover a mistake than if the mistake is acknowledged and corrected.

The final handicap that governments face in the provision of services is that they have two conflicts of interest. The first conflict is the temptation to use the law either to give an advantage

to a government enterprise over its competitors or to help it cover mistakes. The Victorian Economic Development Corporation is a classic illustration of the latter. From all accounts, if the VEDC were a private sector company the directors would now have to be seriously considering whether they could legally continue to carry on business, since private sector directors are prohibited from carrying on business unless they have a reasonable expectation that their company can pay its debts as and when they fall due.

Indeed, if the VEDC were a private sector company, it may well be that the liquidator would have been called in already. Yet because the VEDC is in the public sector, these are not concerns faced by it, since the government can bail it out. This is, of course, what appears to have happened. The government has merged the VEDC with the Rural Finance Corporation and I doubt if honourable members will ever know whether the VEDC has in fact gone bust.

The second conflict of interest faced by government is the temptation to use government enterprise to benefit the members of the government. I do not necessarily mean this in a personal pecuniary sense, because due process and public accountability are designed to prevent such an occurrence, but I do mean that the enterprise can be used for purposes such as winning elections, where the improper use is almost impossible to detect. For all of these reasons, government is not an appropriate provider of services except where there is no practicable alternative.

The third contentious principle to which I referred was fair taxation. This is something of an impossible goal in practice. The best that can be done is to aim for a system of progressive taxation which imposes a greater burden on those more able to bear it, but not a burden which systematically causes greater distress to people in one type of circumstance than to people in another.

It is also almost impossible to achieve a type of taxation which does not vary with the activities of the individual. It is made even more difficult by the constitutional limitation under which we operate. I do not envy any Treasurer who tries to design an equitable and efficient taxation system for this State. Nonetheless, the structure of the taxation system has deteriorated under the present government.

Again, I illustrate the point with an example drawn from my electorate of Balwyn. Five years ago, in 1983, the average house purchased in the City of Camberwell, which takes in most of my electorate, sold for \$77 500. The stamp duty payable on that house was \$1705, a rate of duty of 2.2 per cent. Today the average house purchased in the City of Camberwell is estimated to sell for about \$225 000. The stamp duty payable on this amount is \$9700, which is a rate of duty of 4.3 per cent.

Two points follow from this. The first and most obvious is that the government's stamp duty burden on the average home has increased by 460 per cent in the City of Camberwell over the past five years. That is a massive increase in anyone's terms.

The second point is that the rate of duty has virtually doubled, from 2.2 per cent to 4.3 per cent. What is worse, the marginal rate of duty—that is, the extra duty for each further dollar of increase in price—is now 6 per cent. That is an enormous handicap on efficiency in the housing market. It hinders everyone who wants to buy a house, the first home buyer, the growing family, and the elderly couple seeking a more suitable home for their retirement. It forces people to live in houses that do not suit them and, therefore, means that the housing stock is not being put to efficient use.

Regardless of the over-all level of taxation, which has increased enormously under the present government, transaction taxes such as stamp duty must not be allowed to reach a level where they have a serious effect on the efficiency of the market.

In conclusion, I have spent some time in this speech discussing at length the objectives and principles of government, often in rather abstract terms. Nonetheless, I contend it should always be possible for each of us to justify our actions and decisions on the basis of the first principles which we hold. I have tried in this, my first speech in the House, to set forth in detail some of the key principles which I intend to apply in future to matters that arise for decision.