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The Governor General's Speech and the OECD Report

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OECD surveys are intended to provide expert advice, independent of politics, on what is amiss with the economies of member countries. Whereas, the Governor General's speech to a new parliament is a political statement on behalf of the Government which should outline policies for, among other things, managing the economy. Both fall well short the ideal.

OECD surveys are inevitably out of date by the time they become public. They cannot help but rely on information supplied by officials of the host country. And, inevitably they pull their punches, sometimes making their harshest criticisms between the lines to be read only by economic and administrative cognoscenti. OECD surveys are, nonetheless, one of the most reliable guides that an ordinary citizen has to what may be wrong with economic policies. What they reveal is usually enhanced by by the interpretation of one of the cognoscenti, such as Mr Des Moore of the IPA. To this end, IPA has just published Moore's critique of the 1989/90 OECD Economic Survey of Australia.

The traditional speeches calling new parliaments together inevitably contain political waffle---after all they are written by, or on behalf of, the senior politicians of the winning party. The last Governor General's speech was no exception. It is, nevertheless, the most recent general guide to the government's economic management priorities---certainly it is less unreliable than campaign rhetoric. Unfortunately, it can tell us little about the quality of the government's resolve.

Des Moore notes that the OECD Survey identifies three key areas in which change is necessary, namely, improved competitiveness, increased saving, and higher productivity and improved industrial relations. He also points out that the OECD's forecast of a "benign" recession is plainly out of date---possibly as over optimistic as were the May 1988 Survey's forecasts for 1989. In that survey, the OECD predicted inflation would fall to 5%, whereas it was 7%. And it forecast a 1989 current-account deficit of 2.75% of GDP. In fact, it was 6%. Rumour has it that Dr Pangloss not only joined the OECD but that he has been given charge of national surveys.

In spite of Dr Pangloss and the usual care not to make headlines which would unduly offend the host government, there are some particularly harsh words tucked away in the middle of the 1990 Survey about the productivity of our public enterprises. The Survey claims that labour productivity in Australian public utilities is less than half the OECD average, and capital productivity is little better. It also concludes that further investment is needed in the traded goods sector and that, in spite of an increase in gross operating surplus, after tax and interest profits have not increased.

To improve competitiveness, we should, it says, be resolute in the following areas:

- "Nominal wages need to increase more slowly.

- Impediments to competition in product markets need to be reduced...

- Dismantling trade restrictions must continue...

- Further deregulation and competition in a number of service industries, particularly in the public sector, are desirable...

- The monetary authorities have to show commitment to achieving a sustained reduction in inflation."

In short, there is a lot more to do.

To increase saving, the Survey insisted that inflation must be reduced and argued that a consumption tax might make only a modest contribution to higher saving. As for raising productivity and improving industrial relations, it said plainly: "The pattern of multi-enterprise awards continues to impede change and limit adaptability, and it reduces the scope for productivity improvement." Unfortunately, OECD courage ran out before drawing a conclusion as to whether the industrial relations framework should be radically altered or abandoned.

Representing the Australian Parliament at the OECD Council in Strassbourg, I once complained of the organisation's tendency to be over-optimistic in prediction and mealy-mouthed in criticism. Responding to my speech, the then Secretary General, van Lennep, told me that I should concentrate on those OECD reports which, unlike the national surveys, were signed by the staff and the staff alone. Nevertheless, there is enough in a careful reading of this last report against which to assess the government's intentions.

The Governor General promised us that the Labor Government would "continue the urgent and sweeping task of national reform in the 1990s" and "the establishment of a stronger, more competitive and environmentally sustainable Australian economy". He also promised "determined micro-economic reform" and a "disciplined framework of macro-economic policies". These generalised promises would be more convincing if his speech had not also claimed that we had experienced those good things during the 1980s.

Marginally more specifically, the speech promised that attention would be given to the external accounts and inflation, but, other than a promise not to let up on the fiscal and monetary squeeze, it did not say how. On the micro-economic front, the speech promised reform of trade protection measures, telecommunications and broadcasting, the waterfront and international shipping. Industry Commission references were promised on railways, energy, statutory marketing arrangements and exports of health and education services. There is room for substantial improvements in all of these areas but no indication that the government has in mind the sort of reforms that would double productivity.

In the area of industrial relations the speech is even more disappointing. It promises rationalisation of awards and trade unions "along industry lines"---in other words, multi-enterprise awards will continue to impede change and limit adaptability, reducing the scope for productivity improvement.

In the most general terms the Governor General's speech committed the government to economic reform, it is true. But the speech did not give the impression that the Government felt policies to deal with low productivity, high inflation and debt were urgent. And neither the government nor the OECD suggested an over-all strategy for dealing with these problems. Mr Keating actually let the OECD Survey pass without comment. Where are we going?

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