Jeremiahs, never popular, are usually a pain in the neck. I won't say the thought doesn't worry me but it won't be allowed to prevent a New Year homily.

It appears that Australia is now moving to the recovery phase of the business cycle. So far as it goes that is a jolly good thing. Quarterly measures of economic growth are notoriously unreliable, none the less there are other good signs. Business profitability, and inflation are improving, and employment may be.

The Hawke government is bathing in the sunshine of a recovery that is little of its doing. Economic lags are mostly longer than Hawke's term so far. Although it might have induced a quick but short lived spurt of economic activity by blowing the money supply, to its credit it didn't.

The recovery, except in one regard has little significant to do with the Fraser government either. The one regard is the wages pause, which possibly is a critical element. I say "possibly" because I can't say where recession wages would have been set without it. Over the past year or so real wages around the world fell. In some countries even money wages fell. But in Australia, given the record of the Arbitration Commission and its hangers-on of careless disregard for the unemployed, a formal wage pause was probably necessary. It will be even more necessary in the coming year when the marginally employed will include more of the out of work, and hence out of the union, and fewer unionists in fear of unemployment. It will also be easier for employers to pass costs along. Sadly it is now barely a pause and is showing signs of falling apart. Wages hang like the sword of Damocles ready to skewer the recovery.

Per head of population we may not yet have recovered all last financial year's lost ground, but there is little doubt that the trend will continue to make some real gains on June 1982, albeit less than some other nations' gains.

About half the total September quarter real growth was farm product - a good season following a drought. Harvest prospects have been dampened somewhat by unseasonal rain, but when viewed with hindsight 1983 will be a good season,
which will feed through to the non-farm sectors - a rain led recovery. However next season is an empty page.

For the rest the recovery so far rests on, the inevitable end of a long stock run down, a small increase in private consumption, housing (which at the margin is unproductive investment) and government demand.

Lacking, is any evidence of substantial long term improvement in the productive processes themselves. Productivity, whether measured as output per worker, output per available worker, or even gross product per head of population, varies with the business cycle. Normally it falls during the downswing and improves in the upswing, but passing through the business cycles is a long run upward trend going back to at least the seventeenth century. Malthus, the Club of Rome and other doomsayers have been demonstrated wrong: production has increased more rapidly than population and the standard of living has risen. However, around that trend there has been wide variation. Some nations at some times have done far better than others. While once it was Europe and North America which did well, now it is East Asia.

In spite of the efforts of Keynesians and Monetarists alike, nobody escapes the business cycle. But in some countries like South Korea, Taiwan, Singapore, and Malaysia, three percent real economic growth is a recession, while in others like Australia it is a pretty good year. Some unable to expand output, being weak like Timor or Dutch New Guinea, have disappeared; others, like Peru or Bolivia, having no strong neighbours, live on in poverty; yet others like Taiwan and South Korea with rapidly growing economies have survived against the odds. Our problem is that over the past thirty years our productivity gains have been comparatively lousy.

(Productivity can be improved three ways - by more effort, better practices or more capital per worker or head of population.) Most people work for reward rather than from a sense of moral duty to produce. If the rules don't reward producing we should not blame "the workers", or bemoan lost work ethic.

Nothing in the past year has increased the rewards for effort.
The currency float aside, neither have we improved our practices. In Australia inefficient practices are institutionalised - the Arbitration Commission, the tariff, state monopolies, air line regulation, inexact and inappropriate environmental controls, interest rate regulation, marketing boards, etc.

Recessions, droughts or other economic visitations are rough but they can serve the useful function of shaking bad habits out of the system. However, adversity only gets to work on that portion of the economy which isn't in some way fixed by government.

Finally, new fixed capital investment is expected to fall by 20% this financial year. It isn't that we don't save We have the best housed unemployed in the world!

(Because our productivity gains are less than others, as each recession comes we go in a little deeper and come out a little less than others.)

Like Jeremiah, Emile van Lennep, secretary general of the OECD, has a way of addressing backsliding rulers: "Despite the more hopeful prospects now opening up, no-one should underestimate the political difficulties of persevering with the measures of structural adjustment and financial discipline on which long term success depends. This objective must not be frustrated by a loss of nerve, either by policy makers or their constituents at this critical juncture."

In Australia's case there is not very much evidence that we have found the nerve to lose. (Recovery, not based on more investment and better use of investment, is not sustainable.)