# What Now?

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A substantial majority of those with the most relevant skills (macro-economists of good standing) have advocated fiscal stimulus financed by public borrowing. For good or ill, much has been done, and there may be more, to shore up aggregate demand, guarantee banking liquidity and even to rescue a few ailing companies. We need to consider how best to avoid some/most of the long-run adverse consequences of the policies to which we are committed.

Since Lord Keynes is again in fashion, laymen, including politicians, might profit from drawing a distinction between what Keynes actually advocated and the nostrums of the neo-Keynsians preaching well after his death.

As early as 1937 Keynes wrote, 'public loan expenditure is not, of course, the only way, and not necessarily the best way to increase employment'. He did not then have the insights of the NAIRU (non-accelerating inflation rate of unemployment, perversely referred as the 'natural rate of unemployment' because it is the portion of all unemployment that will not respond to demand stimulus) but he recognised that people were priced out of work when the cost of employing them exceeded the value of what they produced. Put another way, he knew that employment would be increased by reducing real wages and other employment costs, or by increasing the productivity of those workers who might or might not have jobs, or both.

It is worth reminding ourselves how the 1.5 percentage point drop in unemployment from 1989 when the last boom peaked was achieved. Amendments to labour laws allowed potential employees to be engaged on terms that allowed marginal product to cover marginal cost. Although Reith's Work Place Agreements were no doubt the most important of these, improvement had begun during the Hawke years-there was in those days at least a small measure of bipartisanship even in this! While structural unemployment fell, real wages actually rose substantially because deregulation, privatisation, the virtual removal of trade barriers and modest levels of inflation allowed the whole economy to perform more productively. In these other things bipartisanship was substantial. It seems that who governs is relatively unimportant even if how we are governed is vital. There is much yet to be done to allow the supply side of our economy to perform productively. Health, education and law for instance have barely had the attention of economic reformers. If Rudd is really concerned about the frightening predictions of unemployment, he could, with a little obfuscation to save face, reverse, his recent labour market changes and he could delay the cap-and-trade carbon requirements. Pigs might fly! With less political difficulty, with an eye to the long run, he could initiate reform of the still sclerotic parts of the Australian economy.

Also in 1937 Keynes had written, 'the economic structure is unfortunately rigid' and 'it is most important that we avoid war-time controls, rationing and the like'. It seems that even as early as 1937 he might have favoured not more regulation but less, or at least more appropriate regulation-advice somewhat at odds with Rudd's rhetoric. In that year Keynes also claimed, 'Three years ago it was important to use public policy to increase investment. It may soon be equally important to retard certain types of investment so as to keep our most easily available ammunition in hand for when it is required'. In the light of the last, might not Howard be the best Keynsian of all. By eliminating the public debt he allowed Rudd to stimulate without quite the unsatisfactory long-run consequences faced by most leaders.

Before the war Keynes also argued for a Board of Public Investment to prepare detailed schemes including public investments which could be put into effect come the next downturn. Howard may have been the best Keynsian but he did not go quite far enough. Faced with impending crisis, Rudd was condemned to choose public investments on the run. No government could do that well and here I have some sympathy for him. Nevertheless, we will all for ever bear the dead weight cost of investments that are less productive than others that might have been chosen. Pink bats, untargeted school building enhancement and, as in my shire, access ramps at public buildings may not be the investments contributing most to wellbeing.

Mr Rudd's hated neo-liberals, economic rationalists, dries, worshippers of Hayek, call them what you will but exclude the best macro economists, have too carelessly damned Keynsian policies when their wrath should have been directed to those who have exercised 'a licence to counterfeit his intellectual coinage'. That carelessness has damaged our influence when it is needed most. Now, when Keynes' policies are already being implemented on a scale he can never have envisaged, the issue has become how we shall retreat from them in good enough shape to weather the 2018, or whenever, recession-pace those who think the public-debt-financed stimulation is ineffective; you come too late to the argument.

The job now is to make any who will listen aware of the regulations, yes regulations, especially but not only to trade, that turned the 1929 recession into the Great Depression and the regulation of labour and product markets that co-existed with and surely contributed to the very high levels of unemployment during the 1970s and 1980s. Along with demand stimulation we must not only devise plans to return in due course the budget to surplus but to attend to the supply-side inefficiencies that keep the NAIRU higher than it need be.

In 1946, just before his death Keynes wrote, 'If we reject the [classical] medicine from our systems altogether, we may just drift from expedient to expedient and never get really fit again'. I admit to an inadequate feel for the dynamic effects of economic change and, if only for want of knowledge, I must accept that the economists pressing economic stimulus know what they are doing. We should, however, plan the retreat and start to mitigate the predictable unintended consequences of their policies now, lest we turn a very nasty recession into a depression.

http://www.ipa.org.au/news/1808/what-now-