

Boma7 Getting to the Centenary John Hyde

We approach the bi-centenary of the occupation of NSW with our economy and our politics in an unnecessary mess and we are not facing facts. In 2001 we will want to celebrate 100 years of successful liberal democracy. Since we want to get there without becoming an economic basket case or developing the class, racial, or regional enmities which plague most countries we would be wise to face facts now.

Gross foreign debt exceeds \$6000 per person. "The Economist" regularly surveys thirteen economies; ours wins the wooden spoon. Inflation of 9.8% is the highest of the thirteen and three and a half times the unweighted average. Our interest rates are much the highest and nearly double the average. We are the only nation whose Gross Domestic Product (as measured) is going backwards. The Bank of England index shows our currency has declined from 100 index points in 1975 to 53; only Italy (49) and Spain (48) have done worse. These are measures of an economy deep in trouble.

Many commentators have drawn attention to economic parallels with Germany and Italy in the twenties and Argentina in the sixties. These are rightly seen as warnings of economic events which will probably overtake us if we do nothing to stop them.

Parallels have not often been drawn with the politics of those unfortunate nations for three reasons: We do not have the political and social divisions which plagued them even when their economies were better than they became; no-one in Australia has yet behaved nearly as badly as many people did in those nations; and it is difficult to write about the similarities without drawing de facto parallels with Hitler, von Papen, Mussolini, Peron and Galtieri which are too exaggerated to be fair. Nevertheless we must remind ourselves that liberal democracy, even in English-speaking nations, will only stand so much tension and economic problems usually result in civil strife. We do not know how far Australian good will toward other Australians can be stretched. Furthermore, it is probably the Hitlers and Mussolinis would have remained in obscurity in healthier economies with contented people.

Signs that the polity too is not coping are also emerging. Australian politicians are not facing up to the one political task which really matters: wooing and winning democratic mandates for the tough measures which alone can rescue the economy. Instead power play and populism rule them.

The tax system is a mess but tax should not be dominating the policy debate. Economic salvation cannot come by collecting the same amount of tax a different way. The tax debate is driven by greed and wishful thinking. An incoming government's first responsibility will be to eliminate the deficit. That alone will require expenditure cuts or tax increases of six or seven billion dollars. Add meaningful tax cuts, and expenditure cuts of \$10-12 billion are needed. Cuts of that magnitude---which

ought to be made for our children's sakes---require cuts in popular expenditures such as the old age pension. But no-one is preparing the electorate for that to happen.

Mr Keating's banana republic comment, warnings by dry politicians and bankers, published economic indicators, farmland prices and so on have frightened people. But, it seems, have not yet prepared them for the necessary disciplines. They still expect 'other people' to make most of the necessary sacrifices. Many people are suffering some economic discomfort and are easily convinced that their circumstances deserve special consideration. So long as all politicians avoid telling them that special dispensations are not possible they are ripe for the blandishments of any ass in a lion's skin---particularly if the ass is seen to have taken on trade unions which have earned public disgust.

In other times the Queensland Premier would not have been taken seriously, but as drowning men cling to straws Australians are clinging to messianic promises. This is dangerous because as long as non-solutions to real problems are promoted real solutions which are much less attractive will not be accepted.

These real solutions are those which, the world and time over, have been the basis of economic recovery. They involve the abolition of economic privilege---allowing free markets both internally and for imports and exports.

The government must deregulate across the board and fairly quickly, allowing import-competing industries and exporting industries to reduce costs. This will of course be painful for the least efficient and probably cause some businesses to close. Labour market deregulation will be resisted by the union movement. However, the only possible alternative policy is that of allowing industries and unions which enjoy anti-competitive regulation to weaken further the potentially efficient industries. That policy (or lack of policy) would, great good fortune aside, mean that living standards continue to decline for a long time. It would also mean that Australia would be less able to defend itself in a military crisis. It would mean, as it has meant in Argentina, that the welfare safety-nets would ultimately become impossible to maintain. It ought to be unthinkable.

With a sharp drop in living standards now imminent and inevitable the last thing Australia needs are self-appointed messiahs running around offering worried people other people to blame and fanning the flames of enmity. The awsome difficult task of any serious leader is to build an understanding of the changes which must be made without encouraging violence against those who now benefit from the privileges which must be done away with. There is a world of difference between the Opposition proposal to weaken the power of unions by making membership effectively voluntary and Sir Joh's unspecific undertaking to use the army.

Finally it is salutary to think about the roots of our troubles. Contemplation of our own sins should make it more difficult to condemn others.

The economic objection to unions is that they are monopolies, able to compel the buyers of their members' services to pay dearly and accept costly work practices. The protected industries, the wheat board, the government instrumentalities, the two airlines and many others suffer the same objection.

Awards and compulsory union membership are morally objectionable. They prevent people from working and prevent free association. The same objections apply to all restrictions on trading and to occupational licences.

Both sides of politics are responsible. Most of the industry protection---tariffs, two-airline agreements, Telecom monopolies and the like---go back to Menzies and beyond. McMahon started the loose monetary management; it has continued. Whitlam started the loose fiscal management and that too has been continued by both parties.

Instead of facing reality, Australians are taking economically illiterate populism seriously, the Opposition is divided and preoccupied with Joh's bid for power, the government is trying to sweep the economy under the carpet, unions are demanding even higher wages, and the all-ordinaries index is through the roof. Before Joh, the America's Cup captured the headlines for nearly three months.

If we don't take stock soon the Australian centenary might not have much to celebrate---or am I starting at hares?