

What Has Happened to Political Leadership?

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Only a year ago the Federal Government was bragging about its leadership---a boast that sounds hollow today. Even though the imbalance of payments and inflation were mute testimony that its macro-economic strategy was flawed, the Government, at least, had a strategy. It was not uncommon to hear the Hawke Government contrasted favourably with the Fraser and Whitlam Governments.

But, last year, in response to mounting pressures from traditional Labor supporters, Mr Keating brought down the gambler's budget. The gamble failed and the economic and electoral strategy fell into disarray. If the Hawke Government had not lost its sense of purpose, the situation might have been rescued by policy changes but, as it was, no serious attempt was made.

Last Saturday, in an interview with Paul Kelly in the *Weekend Australian*, Mr Keating tried to re-establish the Government's authority and regain control over the economy by saying plainly to the unions, "The wages--tax trade-off is, of its essence, just that---a trade-off". Here, at last, was a glimmer of political leadership. One swallow does not, however, make a summer, and one purposeful statement is not government. Moreover, we may not have had even that had not Mr Hawke been overseas.

Need for it was obvious. This fiscal year's current account deficit was forecast to be \$9500 million; after only six months it is \$8200 million. This year's inflation, even after allowance is made for the housing quirk, is going to be at least 2 percentage points more than expected.

An over-regulated and uncompetitive supply side of the economy underlies the obvious macro-economic problems. The labour market is the most serious of these problems, but the Labor Party will not (or cannot) deregulate it. It must therefore cajole, threaten or bribe the unions not to use the full extent of their power, while it does the best it can with fiscal and monetary policy. However, Mr Hawke has ruled out further expenditure cuts, which could have produced a large

surplus or financed tax cuts. Earlier he ruled out privatisation which could have financed tax cuts last year. The government has, therefore, been relying heavily on monetary policy to control demand and reduce inflation. But monetary policy has failed to sort out the macro-economy.

Domestically-financed, market-directed investment is the surest, perhaps only, way to generate the income needed to balance the foreign account, but investment volume has been mediocre and domestic saving poor. Yet, by committing itself to maintaining expenditure, the Government has ruled out substantial net government saving---that is, a big surplus.

The Accord too is a broken reed. After some apparent initial success, it has so ossified the labour market that talent and effort cannot be rewarded without a blowout in average wages. Such a blowout is now imminent with even the moderate elements in the union movement insisting that wage minimums rise in real terms. The government---at least until Mr Keating's interview last weekend---seemed to accept that this was inevitable. Indeed, Ministers seem to be trying to make a virtue of necessity by using the impending wage hike to achieved award restructuring.

The Government's abrogation of leadership has been general. The Greenies are again making serious inroads into badly needed export income. Environmental degradation is, of course, a real problem, but it is one of many. Those who see it as the only problem should be encouraged to understand that if the economy goes into a tail spin, the ability to afford environmental protection also suffers. The green movement's leadership has a strange agenda and follows Neanderthal economics, but the rank and file are amenable to rational arguments about costs and trade-offs---if they hear them.

Except in agriculture, where Mr Kerin continues not to panic, it seems that vested interests now have most of the cabinet by their short hairs---witness how fear of the maritime unions stopped coastal shipping being deregulated. Consequently, micro-economic reform has slowed to a dribble. The benefits of this sort of reform take time---new capital must be commissioned, new contracts written, new practices learned etc.---but it is the only way Australia can balance the foreign account and service its foreign debt without reducing living standards. It is, thus, the only acceptable long-term strategy.

To get through the short term the Government needs a revised macro-economic strategy that sharply reduces consumption and raises domestic saving. And in order to hold out a long term that would make this restraint worthwhile, it needs to return with vigour to its micro-economic reform strategy. But both strategies adversely affect some people. The public must be convinced of the need for them and precious time is being lost.

Perhaps Mr Keating sees this, and Senator Walsh would no doubt like to make us contemplate the Argentina road again.

The Prime Minister is different---as his remarks during the WA election campaign show. Then, he predicted that home loan interest rates would not rise any further before they fell later this year---the first prediction did not survive a fortnight.

In case he cannot recall Mr Fraser's prediction, made during a Queensland election, that interest rates would fall by 2%, I will remind him. The Fraser Government, like his government, had been unable to control wages and was unwilling to cut government expenditure. It had reduced inflation by relying heavily on monetary policy---interests rates were high and home buyers and farmers were unhappy.

Fraser's prediction---the antithesis of responsible leadership---was interpreted as a promise. To save face his government later tried to force interest rates down. Then the money supply targets were missed and Australian inflation rates and wage rates climbed ahead of those of our trading partners---where they have been to this day. Among the many consequences was, arguably, the demise of his own Government.

Political leadership is about making the connections and explaining the trade-offs. To this end, Australia might be best served if Mr Hawke stayed overseas.

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