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The Government and the Wage Round

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The belief that living standards can be maintained in the short run has become dangerous nonsense and it is past time ordinary Australians were told. The current National wage round provides the time and place to tell them.

A situation where each month's current account deficit exceeds $1000 million cannot be allowed to continue for very much longer without a totally unacceptable loss of credit-worthiness. So far this financial year, with only seven months gone, the accumulated Current Account deficit has exceeded the forecast for the whole year.

The basic problem is that we are not producing enough to maintain living standards and we have been over-consuming for so long that we now require a substantial trade surplus to service our foreign obligations. Therefore, to reduce the current account deficit one or both of two things must happen: productivity must rise or Australians must accept a temporary drop in consumption. This has been the situation for some time. What has changed is that we have passed the point where any likely increase in productivity could solve the problem without a temporary fall in living standards. It remains the case, however, that everything that can be done to raise productivity will reduce the extent to which the standard of living must fall. Deregulation, particularly of sectors such as transport and rural marketing, where quick benefits can be expected, must be accelerated.

Moreover, whatever the government may say to the contrary, in fact, it is in the process of trying to engineer the necessary fall in living standards by means of tight monetary policy---interest rates are now exceptionally high. It may reasonably be argued that in doing this it is taking the course Britain took in Thatcher's first term and New Zealand took in Lange's.

Tight monetary policy and an accompanying high dollar, by inducing a recession, will, in time, curb consumption. Some element of recession now seems to be unavoidable---the longer we go on as we are, the deeper it will ultimately be.

Such recessions are not unusual, nor are they necessarily a bad thing---they are the obverse of booms. They should be the time when badly-employed capital, bad work-practices and feather bedding is shaken out of the economy. They are a time when, with good political leadership, steps may be taken to deregulate labour markets. Britain is now reaping the rewards of its shake-out and New Zealand can now see a little light at the end of its tunnel.

What should Mr Keating do?

Mr Keating keeps telling us the fundamentals are right and that there is no need to change policy. Neither claim is true unless a protacted recession is his preferred option. He must encourage Australians to accept a period of restraint. That means a firmer line with the unions and an early economic statement.

First he should, as soon as possible, do everything he can to replace restraint via monetary policy with restraint through fiscal policy. Monetary policy is a poor tool to use on a balance of payments 'crisis'. Because high interest rates drive up the exchange rate, and because they may reduce investment, monetary restraint is, in part, self-defeating. Only a large combined---that is Federal, State and Local Government added together---budget surplus would reduce domestic demand without adversely affecting the competitive ability of exporting and import-competing industries.

The restraint must be imposed as directly as possible upon consumption expenditure. Two areas stand out. Both are politically difficult. First, recipients of pensions and social security benefits must be required to share in the general restraint. They should forego one six-monthly indexation rise---saving about $800 million.

In the context of current economic problems, housing is a form of consumption. It is the second area where activity should be squeezed. It is already being squeezed by high interest rates, but a capital gains tax on family homes would be a better tool. If the tax should cause a downturn in the building industry; better there than in manufacturing, mining, agriculture, tourism or any other sector that earns foreign currency directly or at short remove. Foolish tax laws are causing Australians to put altogether too much of their investable capital into housing instead of into income-earning assets.

There are also many smaller items where savings may be made. No doubt they are to be found on Senator Walsh's list of unnecessary and wasteful government expenditures.

The Autumn statement should also change the tax laws to remove the current penalty suffered by investments denominated in dollar terms. Only real earnings, after inflation has been deducted, should be taxed. This will, of course, replace the current anomaly with another, but, given a choice of anomalies, we cannot afford to choose those that penalise saving---that is, penalise voluntary reductions in current consumption to gain future benefits.

A housing capital gains tax should have the additional advantage of demonstrating to the union movement that they are not being asked to bear all of the burden of restraint. Further wage restraint is essential---wage earners cannot realistically be exempted from a general reduction in living standards. Australian industry, which is not now competitive enough to maintain an acceptable current account, cannot afford higher wages until the productivity gains which justify higher wages are in place. We will know when that day has come by observing the current account and our accumulated foreign debt.

However, that is only half the story. Neither can some businesses afford to be short of key personnel because the wages they offer are too low. What is needed is a freeze on award minimums and the ability to pay more than the award where necessary. A freeze of award minimums expressed in nominal terms would reduce those minimums in real terms, and would be a measure of deregulation.

What is more, when unemployment is over six percent, either the unions are not showing restraint or the unemployed choose a life on the dole in preference to work at award wages.

The Government must go into the current wage negotiations fighting for a reduction in real awards. Nothing less than a substantial reduction will prevent the present monetary policy inducing substantial unemployment and nothing less than a substantial reduction in real wages will reduce the need for tight monetary policy.

In the present situation, tax cuts are, in themselves, less appropriate than public-sector debt reduction. They are only appropriate if they are the only way that the all-important wage restraint can be induced. The fact is that organised labour has a stranglehold on the economy that, unless it is broken, will prevent any government achieving a healthy economy. Mr Simon Crean boasted that the restructuring package, which seems to have the Prime Minister's approval, was "entrenching the importance of the union movement in the economic system".

Mr Crean, albeit unwittingly, has identified the nub of the Government's and the nation's problem. The Government should not be trying to entrench the union movement. Instead, the Government should be arguing for what it knows to be right for the economy. If, as a result of the Government's attempt to govern, the unions should cut loose, as they without doubt could, that will be very costly in the short run. But Australia probably has to go through something like Britain's Winter of Discontent before the union movement can be brought within the law as it applies to other Australians. There can be no long-term solution to economic problems in continuing appeasement.

On the broader front, there can be no long-term solutions until the Government is frank with the public about such things as necessary belt-tightening. The Government should start explaining this immediately---in its submission to the Arbitration Commission.

ENDS