

*Hand Copy
Shane got 2 Copies*

222
FIN ON THE DRY SIDE
THE NEXT PRIME MINISTER John Hyde

A challenge to Mr Howard is not inevitable; if Mr Peacock does not have the numbers he will not challenge. Nevertheless, let us assume there is to be a challenge and let us make the unrealistic assumption, just for the sake of an argument, that the prime concern of the majority in the party room will be to offering Australia the best possible Prime Minister. Surely Australia's economic problems would be uppermost in their minds. What person with what characteristics would they look for?

The ideal Prime Minister would:

- * understand what economic policies are essential---as he will get a surfeit of advice, in practice this means the ability to identify the economic wood among the political trees.
- * have the courage to take the essential steps in spite of rampaging wounded vested interests.
- * have the standing to hold necessary support for them in a (smaller) cabinet, party room and parliament.
- * have the ability to woo and win enough public support for them to make retreat unnecessary at a time when living standards are falling.

That is too tall an order for anyone in (or out of) the Liberal Party to fill. We are stuck with a parliament of mortals but the search for a messiah gives rise to periodic calls for Elliot, Hay and particularly McLachlan to supplant current parliamentary Liberal Party leadership. The calls are naive. I do not doubt the quality of government would be improved if any one or all three were elected to parliament but the chance of one of them successfully stepping straight to the Liberal leadership is miniscule.

Politics is seen, I think correctly, to have failed Australia but it does not follow that it will be improved by introducing persons without political experience to the top of it. Nor is there an obvious mechanism which would give the Liberal leadership to one of them. Those men-of-strong-opinion who expect Ian McLachlan to rise Phoenix-like from the ashes of a Federal Opposition put to the torch by Sir Joh know very little about politics. Of course McLachlan himself has no such silly delusions.

For the time being, Opposition leadership will come from present Liberal Federal MPs.

Without at least a little of each of the four attributes a Prime Minister would preside over yet another stage, marked by the currency, on the road to Banana Australia; but without a commitment to relevant policy the ability to win support is pointless.

If Mr Peacock is most likely to slash the regulations which

protect airlines, doctors, labour unions and other politically influential bottlenecks, slash trade barriers, build upon Labor's tentative steps toward privatisation and slash government outlays then clearly he should be Leader of the Opposition and in due course Prime Minister.

However Mr Peacock needs an opportunity to establish his policy credentials with our hypothetical party room in search of the ideal Prime Minister. The tax-cut debate, which has gone off the rails, is it. If he can turn the present talk of tax cuts around to expenditure and deficit cuts we will have reason to give him our confidence. He would be what Sir Humphrey calls, 'courageous'.

The tendency for budget deficits to spill into trade deficits is known as the 'twin deficits' problem. It and not the adverse shift in our terms of trade (which we have experienced before and will experience again) is the relevant cause of our present foreign debt and balance-of-payments kettle of fish.

Under no circumstances should tax cuts cause even current levels of public sector borrowing to continue. Any talk of tax cuts which are not preceded by quite massive expenditure cuts is dangerous. To eliminate the Commonwealth deficit, \$5 to \$6 billion must be cut from the forward estimates. Further expenditure cuts could then be employed responsibly to finance tax cuts.

This, to date unheard of, restraint is the right policy for the present circumstances. The fact that the current account (overseas) deficit is so large is evidence that Australians are spending far too much. Clearly we do not need to---indeed cannot afford to---stimulate demand by tax cuts or in any other way.

Yet one element of private sector demand, private fixed investment, is too low to even sustain private capital stock. Tax cuts and interest rate cuts would improve the quantity and quality of investment but a tax cut or a cut in the bond rate which was not matched by reduced government demand would be disastrous. Therefore, to finance deficit cuts and meaningful tax cuts the forward estimates need to be cut by more than \$10,000 million

There are as many possibilities for 'cuts' as there are items in the budget however these will serve to illustrate the sort of tough policies which are needed. Each saves approximately \$1000 million. Reduce age pensions by 15% or more tightly means test them to save 15%. Take the family allowance from wealthiest 50% of recipients. Ask for tertiary fees of about \$3500. Reduce States grants by 6%. Abolish most 'job creation' schemes with half of 'industry assistance'.

Cuts of that magnitude cannot be made without pain to the present beneficiaries of the largess nor to the politicians who

make the cuts but inflicting a little cold turkey on people now is clearly more responsible than running the risk of far worse in, say, ten years time, when Australia, like Argentina, runs out of credit.

A leader strong enough to make such cuts would be strong enough to also deregulate and privatise. If I were still a member of the party room I would vote for the colleague who came nearest to having the stomach for the task.

ENDS