

## Micro Economic Reform

*John Hyde*

The economy is the unwelcome guest at the bicentenary feast, studiously ignored by all. We cannot put off acknowledging him forever. We know well enough why the foreign account is in deficit and why Australian credit ratings are discounted. In the end we will have to recognise that we have only two options: consume less or produce more.

Since World War II, few countries which have travelled far down the Argentina Road have returned. The best that chronic debtors have achieved is to more-or-less stabilise their indebtedness near to the point where poor credit ratings made further borrowing exceedingly difficult. Some, such as Argentina and Poland, had to accept a sharp fall in living standards to do even that. By raising productivity, others, such as Brazil and Chile, did better, but they have yet to reduce their debt burden. A few, such as Korea, are so productive that they can manage huge debts---they are not on the Argentina road. Australians must understand that the way back along the Argentina Road is long and seldom travelled.

The nations with the most intractable problems, which eventually become the basket cases, are those with big debts and poor records of productivity improvement. Australia does not yet head the debtors' lists---borrowing to maintain living standards is a recent phenomenon for us---but our productivity growth has been abysmal.

In any country, long periods of poor productivity growth are not bad luck. They are invariably the consequence of man-made impediments to the free exchange of goods and services. Theoretically, these impediments could be the work of ignorant, but well-meaning, governments, but since every administration has the advice of at least the IMF and World Bank, it is more likely that the governments concerned were self-serving and weak. They allowed themselves to be controlled by colonels, trade unions, landed families and, in democracies, blocks of voters defending monopolies, tariffs and other privileges.

When an economic crisis becomes pressing, vested interests temporarily lose their hold over the government. Then the general interest and conventional, rational economics is given a go---for a while. But, as soon as the faintest light appears at the end of the tunnel, the vandals return to

the business of using the government to loot their fellow citizens. Lulled by exaggerated accounts of the smallest success, the community tolerates another binge of regulation and hand-outs. These send the economy into reverse. A decade or so later the whole cycle may be repeated. The possibility of solvency with sustained growth is never quite lost to view but neither is it ever achieved. Since the nation never acquires reserves to see it through hard times, it performs a dance with the fates---let us call it the Latin Shuffle.

In 1984 the New Zealand economy was at the brink of disaster and economic rationalists were invited to save it. For four years New Zealand has enjoyed the best economic government in its history. By any measure it took substantial steps toward improving productivity. By re-electing the Lange government, the New Zealand electorate sanctioned what was being done, and now the economy is showing the first signs of rallying.

They probably joined in the general applause when farmers lost their privileges but the left wing of the Labour Party and the superannuation lobby are now prepared to Shuffle down the Argentina road. All too easily they suborned the Prime Minister, who stands revealed as a weak man of uncertain ideals prepared to rat on his Treasurer in his absence---the Latin Shuffle! (John Howard can hardly forget the additions to his 1982 budget while he was at an IMF conference.) However, unlike Howard, Roger Douglas came charging home to fight the vandals. He seems to have won, but were his influence diminished, then it will be hard luck for New Zealand; it is still too much like Argentina. The financial markets have in effect said to Lange, "You retreat from rational economics and we will take our money to some other badly-run country with less debt, such as Australia".

That Australia has not gone as far down the Argentina road as New Zealand is shown by its better credit rating. But it has gone far enough to make the way back more difficult than has been travelled by many. What is more, when compared with the New Zealand government, the Australian government has, so far, pussyfooted around the central problem of raising productivity. But it has, however, done something and promised more.

There is a faint glow at the end of Australia's tunnel too---the current account deficit, though still huge, is down, public sector borrowing is high but reduced, and interest rates are falling. Senator Walsh is clearly worried that this is enough to re-arm the vested interests. The Finance Minister has therefore been talking, a shade coyly, about the barrier to successful economic adjustment presented by "certain attitudes among sectors of the Australian community". He names these sectors: business people benefiting from subsidies, protection and tax breaks; unionists who will not concede variation of "hard won" conditions; beneficiaries of government spending programmes; and those who deliver government spending programmes.

The Australian government has promised us a serious programme of micro-economic reform. Since micro-economic

reform is the only policy that can service Australia's debt without drastically reducing Australian living standards, it is not before time. Sadly, it will be opposed tooth and nail by economic vandals, with "certain attitudes", who are prepared to destroy their country rather than give up their privileges.

The decision to allow Telecom to time-charge local calls should have been a small but significant step toward raising productivity. It looks as though our Prime Minister, too, is prepared to rat on his Treasurer once again, and the Opposition's willingness to make political capital of the issue is contemptible. We dance the Latin Shuffle as well.

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