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## A Tale of Two Nations

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The latest CIS publication *Fiji: Opportunity from Adversity?* by leading Australian economists Wolfgang Kasper, Jeff Bennett and Richard Blandy has important lessons for Australia. Fiji's economy is worse than stagnant now, but it was stagnant before Colonel Rabuka's military coups. What is more, it stagnated in characteristic Australian ways. Australians humble enough to concentrate on the economic similarities, rather than the racial/cultural differences between the two nations, might learn much.

The advice the economists give Fiji is the same as that given Australia in the latest AIPP publication *Deregulate or Decay: the lesson of the 1930s for the 1990s*. It is that economic decline can be avoided only if governments remove the regulations which favour some groups over others and at the same time inhibit productivity gains. In the case of Fiji, this is also the only way to restore inter-racial trust.

The more obvious similarities between our nations are: sclerotic over-regulated industry, poor economic growth, inadequate and misplaced capital formation, a sustained record of budget deficits, a serious balance of payments problem, inflation that is higher than trading partners, a marked down international credit rating, and high and growing foreign debt.

The first words of the Authors' Preface to *Fiji* are, "Politics has created severe economic costs for the people of Fiji". Of course one thinks immediately of the two military coups and of lost democracy, but almost immediately they write: "The painful economic problems of Fiji are durable and long term in nature".

Since independence, Fijian politics had been in the hands of the conservative native-Fijian-dominated Alliance Party. In 1987 an avowedly socialist government with plans for nationalisation, income redistribution and tax-financed or debt-financed public services, led by Dr Timoci Bavadra, was elected. Bavadra was, in essence, Fiji's Mr Whitlam. The horror with which investors viewed his government was no more than common sense, but investor horror does not excuse the subsequent coups. Nor was the reaction of investors the prime reason for the coups. That reason is to be found in Fiji's unfortunate bi-culturalism.

The post-coup government made Professor Kasper's team welcome. One minister said, "Real friends tell you the truth, even when it is unpleasant", but I wonder if he expected to be told, in effect, that the Alliance Party had been the equivalent of the Australian Country Party or the New Zealand Nationalist Party under Muldoon.

Fijians are not yet poor but their rate of economic growth is dreadful---even by Australian standards.

Comparative Income Levels and Growth Rates

| | Income Level 1986, current $US | Av. annual growth rate (real per-cap. GNP, %, 1973-86) |
|---|---|---|
| Malaysia | 1731 | +3.4 |
| Thailand | 753 | +3.6 |
| Republic of Korea | 2241 | +6.2 |
| Taiwan | 3507 | +5.4 |
| Fiji | 1635 | +0.6 |

Australia's real per capita growth over the same period was 1.51% per year.

The following excerpts from *Fiji: Opportunity from Adversity?* will sound familiar to most Australians. "Fiji's poultry, pork and egg industries are controlled by many individual producers subject to numerous regulations.... The dairy industry is dominated by the REWA Co-operative Dairy Company.... The Department of Forestry manages native forests... Nearly 50,000 hectares of pinus caribaea have been planted by the Fiji Pine Commission (FPC)....logs are sold to Tropic Wood Industries, which has as its major shareholder the FPC... The tuna operation is entirely in the hands of the Ika Corporation, a loss-making, government-owned organisation.... The ginger industry has been made subject to an export licensing scheme." There followed a *Fiji Times* account of how 2.5 hectares of ginger, sold to a buyer in the US, rotted for want of an export licence.

"The sugar industry at present comprises the mills, operated by the 80% government-owned Fiji Sugar Corporation, and the growers represented by the Sugar Commission of Fiji. This commission is in turn responsible to the Minister for Primary Industry, with a specific court, the Sugar Industry Tribunal, to hear grievances. Bureaucratic involvement extends to marketing...." etc.

Fiji has two largely state-owned airlines. "Air Pacific...has been ensnared in restrictive, high-cost operational and work practices, inappropriate equipment, and an administrative, rather than an entrepreneurial, management style. This has restricted Fiji's tourist and export industries." That sounds familiar too, as do the economists' observations on Nadi airport, posts, telephones, tertiary education and tariffs.

Like Australia, the Fijian economy has some bright spots. One of these is gold. Another, unlike the Australian case, is clothing---a low labour-cost country can excel in a labour intensive activity where a wealthier nation might not. Nevertheless, even here, there is some similarity: the clothing industry is made less competitive by restricted textile imports.

In one matter Fiji is better placed than Australia: faced with a sharp fall in GDP (13% during 1987 alone) centralised labour market regulation was by popular consent ignored, thus preventing wholesale unemployment. When, between 1928 and 1932 Australia experienced an 11% fall in GDP, unemployment rose to nearly 20%. (Among trade unionists, where real wages were even slower to fall, unemployment rose to nearly 30%.)

Thus the message for Fiji is the same as for Australia. You have a choice: raising gross national product per head or living poorer. In the long run, subsidising living standards from a foreign account defict is not an option. In the short run, we, like the Fijians, may have to live poorer because we have not raised productivity quickly enough to do anything else. But no sane government would choose to reduce living standards when there is an alternative. The choice therefore becomes: deregulate or decay.

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