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Published
7-6-85

Australians are at last waking up to the fact that our economy is sick. The malady is not new and its consequences could long ago have been predicted with reasonable accuracy, by observing other countries like Britain, The Netherlands, New Zealand and Argentina which became infected before us. The sickness is largely self inflicted and our Governments, of both political hues, have much to answer for, but nothing more than for disguising it.

In the fifties and sixties the Australian economy suffered lousy rates of per capita economic growth. Our living standards rose less fast than those of most countries within our region or with which we habitually compared ourselves but we lived within our means. However, by the seventies, demands for high living had built up, and Gough, in effect, hocked the silver to throw his party. Since then, encouraged by trade unions, lobbies like those from housing and education, and above all by the governments themselves, expectations, demands, and living standards have consistently outstripped production. Now much more than the silver is in pawn.

Whitlam, Fraser and Hawke, tried to satisfy unsustainable expectations, which they themselves encouraged, by borrowing abroad and by borrowing money which Australian investors would otherwise have spent on factories, farms, and other fixed capital. Inevitably we have arrived at the time when the cost of servicing foreign debt, and failure to build capital assets are detracting from living standards. Unlike say Argentina, which lived even further above its means than we have so far, but which has come to earth with a thud, we have not yet started to reduce our foreign debt.

At the level of individual people excessive expectations are appeased in disparate ways which include such innovations as free university education, arts grants, football grants and bigger transport losses; but the two most important are wages which increase faster than productivity, and easier access to welfare payments.

Put bluntly, we borrow and consume or fail to build our capital as our parents sinned for us. Meanwhile, within this unsatisfactory overall situation, the employed make income gains at the expense of the unemployed who do reduce their living standards. Unemployment, and a perhaps misguided interpretation of Keynesian economics, gave governments a reason, albeit what in the long run has proved to be a bad reason, to borrow more.

An article by John Brunner in the February issue of the Business Council Bulletin has this table:

Percentage increase in components of Australian real GDP:
1969/70 to 1983/84

Private Consumption	56.7
Government Consumption	94.7
Total Consumption	63.6
Private Gross Fixed Capital Expenditure	16.2
Public Gross Fixed Capital Expenditure	22.3
Total Gross Fixed Capital Expenditure	18.4
Export of Goods and Services	65.2
Import of Goods and Services	55.1
Total Gross Domestic Product	53.7

Government consumption increasing nearly twice as fast as private consumption is sustainable, if in an increasingly socialist society, but total consumption increasing by 10% more than total production is not sustainable in any society. Neither can fixed capital expenditure, so low that it has almost certainly been insufficient to cover depreciation, be sustained in any society. It seems that over 15 years our capital stock has declined marginally; if so, our capital stock per head of population has plummeted.

Consumption increased from 73% of GDP in 1969/70 to 78% in 1983/84. Clearly more must be devoted to investment and to servicing the debts incurred over the past 15 years. The share of total GDP taken up by consumption must fall. Many would like to see Government consumption lead the way down.

Either production must be increased substantially and quickly, or consumption, that is living standards, must fall substantially and quickly. There are sufficient examples of countries which have increased production very rapidly to demonstrate that this, much to be preferred solution, is possible. However, so far as I can recall, they all fall into two categories: either national crises called forth exceptional effort, which was itself a lower living standard, as in Britain in the war; or the countries concerned rapidly deregulated and reduced trade barriers as with the well known examples of post war Japan and Germany, and more recently Taiwan, Korea etc. Australia seems unlikely to deregulate quickly enough to avoid the necessity of making some concession to our problem from living standards. The Government has shown no willingness to tackle labour markets, and insufficient willingness to deregulate transport and communications as it deregulated finance or to reduce our trade barriers. The Government did find a sufficient amount of purpose with the dairy industry only to be obstructed by real opponents of free enterprise in the Senate - too many of whom sit to the President's left. The experience will not encourage the Government to tackle other industries.

In the absence of extraordinary luck or wholesale deregulation, consumption must be allowed to fall. Although sports grants and other frippery should not be ignored, substantially that means a decline in aggregate real welfare payments and in real wages.

Real welfare payments have expanded primarily because of increased access to the welfare system. To the extent that access has extended beyond the alleviation of hardship, welfare must be curtailed. By opposing Labor's assets test and by offering the veterans time to make the Government's cuts politically untenable the Opposition has been unhelpful to the goal of reducing consumption. Indeed there are times, which are by no means insignificant, when we would be better governed without a Senate. I will remember the obstruction which the Senate placed in the way of Malcolm Fraser's budget cuts and how the defeat of the Funeral Benefits legislation influenced future attempts to control public expenditure.

Here wages have exceeded productivity gains, but in several countries real and even nominal wages have fallen to cope with adverse economic times. These countries are our competitors. The devaluation gives us an opportunity to change our trade deficit into the surplus needed to service our foreign debt but only if we accept the reduction in real living standards implied by the devaluation itself. Yet, in the words of John Nurick of AIPP, "The Hancock Report admitted that downward flexibility was important but not important enough to do something about."