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ON THE DRY SIDE      THE CRUNCH      John Hyde  
Full wage indexation this or next year would make Australia as sick as New Zealand or Great Britain. We already have a dose of what was once (pre Thatcher) called the British disease. Anyone wanting to understand how we caught it need only study what happened at the tax summit where vested interests prevailed over any reasonable understanding of national interest. It was pluralism gone mad. Every vested interest prevailed over all others until each interest, by getting what it wanted most, has almost certainly got a package that nobody wants. There was an unintentional, but no less unholy for that, alliance of trade unions, business and welfare to wreck option C by each protecting its own corner. As with option C, so it is with the whole economy. Saddening though it is to admit it, the tax summit was merely Australian society in microcosm.

Our economy has arrived at a critical event - a 'crunch point'. It looks as though the trade union movement, by insisting that their members are compensated for devaluation induced inflation, are about to inflict wounds on the economy which will compare in severity with the McEwen car plan, the Anthony/Sinclair monetary explosion of 1972, the Clyde Cameron wage explosion, the Fraser textile decision and the monetary laxity which led to the 1981 wage explosion. Faced with the power of the ACTU the Hawke Government is unlikely to be any more effective in protecting national interests than it was at the tax summit. But unlike the tax summit the issue at stake this time is vital.

Although it would of course be impolitic for him to say so, I believe tax reform itself was part of Keating's game-plan to limit the impending damage, apparent ever since our currency collapsed, of the Accord's sanction of full wage indexation. If he kept enough balls in the air; if take home pay packets were increased by income tax reduction; there was some hope that the unions would accept some de facto wage discounting for the devaluation lost in the discount for the new sales tax.

Although our problems have reached a new intensity they are not new and have many causes. For decades vested interests prevailed on our governments to grant them privileges which are in many ways comparable to the franchises granted by the Tudor monarchs to their favorites, but modern privileges take countless forms that the Tudors never dreamed of. Important among them are trade union immunities, trade barriers, monopolies like television licences and airline agreements, rural marketing monopolies, welfare that goes well beyond the needy, free health and education for all, and a monopolistic public sector. Burdened by the economic distortions demanded by vested interests our economy became sluggish; our living standards slipped behind those of people like the Japanese toward whom we had been brought up to feel an unwarranted superiority. From the early seventies we maintained our living standards at a higher level than our production. We did this by borrowing abroad and by reducing our investment. Both of these practices allowed us to live high at

the expense of tomorrow. Both have now caught up with us - tomorrow has arrived.

Now rundown equipment as well as the before mentioned privileges is reducing our production. On top of that, more of what we do produce is required to service our debts. We have entered a vicious circle. Now, unless production can be increased greatly, living standards must fall. I assume that we will not contemplate putting off the evil day by borrowing even more for a bigger crunch later - but I am not at all sure that we will not try just that without serious contemplation, until lenders become really worried about our ability to repay.

The devaluation of our currency was foremost an international assessment of the worth of our money - the first doubts about us. But it should be more than just a warning shot across our bows; it should also be the means by which we regain competitiveness in world markets and earn the foreign currency needed to service our debt. It should be the means by which we reduce what we take out of the economy to a level that will leave enough to service our debts and again allow sensible investment to refurbish our capital stock. We cannot capture foreign markets if our costs and prices (measured in foreign currencies) are not cheaper, we cannot use what we have consumed to invest or repay debt and we cannot even stand still by continuing the practices of the past fifteen years. We must consume a smaller proportion of all that we produce. For trade unionists to insist on maintaining their living standards (that is indexation), and to insist on maintaining their share of all production, not even the share of production after foreign debt service, (that is the productivity case) is to demand what in the long run is literally impossible. In practice the demand is that as the trade unionists go down the same tube we all go down they take a bigger share of less and less.

Messrs Dolan, Crean, Kelly and Co. act no differently from the representatives of other vested interests which got us into this vicious circle but, with inflation headed for 8% as the treasurer predicts or 10% as the Business Council predicts, they have an unprecedented power to do harm. The fact that the economy, and with it most social objectives from full employment to defence to aboriginal welfare, gets crunched is just coincidental to their aims: that isn't what they intend any more than it was what all the other vested interests intended but they and not the BLF are the real danger now. The damage done to the economy by the demands of law abiding vested interests like, say, the Ironworkers or the Metal Trades Industry Association, is no different in type from that done by those vested interests, like the BLF who go outside the accord, the law, or whatever the current rules may be. Should Hawke feel he is too weak to defy the ACTU and instead use the BLF, which is behaving only as badly as it always behaves, as a whipping boy to satisfy the public, he will sow the seeds of further economic decline for everybody, including those unionists who now insist on maintaining their living standards, and reap defeat for himself.