

Last week I said that over the unforeseeable long run a political party wishing to maintain direction in office must discipline itself with a reasonably consistent body of ideas developed by sustained debate within its ranks. It must also work out how it is going to use a fresh mandate - the first year in office.

In 1987 a new Federal Government will face the same serious economic problems which proved too much for its predecessors, but which, because of the cumulative effect of neglect, will be worse. Bitter experience shows that Governments in office have little time to think and prepare ground and that reforms not set in train promptly are unlikely to be achieved.

A new Government must start with a clear expectation in the minds of the public, its own back bench, and indeed its ministers, that it will attempt long term solutions to at least these problems: poor economic growth, unemployment, inflation, continuing pressure on the Australian dollar, public debt and public borrowing, and overdue defence expenditure. Solving these would be either unnecessary or easy if the productive (supply) side of the economy were to perform sufficiently well, but Australia's productive apparatus is sclerotic. Poor productive performance will deny the new Federal Government a painless way of paying for defence and coping with the macro-economic problems.

Wage restraint, increased foreign indebtedness and devaluation have produced a couple of good growth years but poor economic growth has reduced Australia from one of the wealthiest of the twenty-four OECD nations in the 1950s to one in the middle rank now. That the malaise is caused by high public expenditure and unequal taxes, welfare payments which discourage work and often miss the needy, industry protection, and labour market failure is well known.

Regulation and government burdens have eroded the capacity of the private sector to create jobs and contribute to economic growth. Over the past decade:

- *Private sector employment has grown by only 0.4% p.a. while government employment has grown by nearly 4.0% p.a.
- *Privately produced national product per capita has grown by only 0.8% while government and other non-productive services have grown by 3.5% per head.

The continuing shift to public-sector employment and production which depends on public borrowings is eroding the capacity for self-help and competitive endeavour. It mortgages the future.

Deregulation, reduction of trade barriers, labour market reform, taxation reform, and reform of the whole transport and communications sectors must be high on the political agenda. In the long run there is nothing more important than attending to these 'supply side' problems. If they are ignored Australia will indeed become, as Lee Kuan Yew said we would become, 'The poor white trash of South East Asia'.

Public debt now exceeds \$11,500 per employed person; the interest bill on just the Commonwealth's debt is \$6700 million or 10.5% of its

revenue. Each deficit adds to the debt burden. The most recent Commonwealth deficit is budgeted to be \$4,919 million or 7% of outlays.

Within the term of the new Government oil revenues are expected to decline by about \$2000 million, or nearly 3% of outlays.

From the date of election the new Government will need to know how it will replace the dwindling oil revenue, eliminate the deficit and finance defence. It has only the options of cutting expenditure; of introducing a broad based consumption tax; and, as a short-run solution only, selling publicly owned assets, privatising.

State Governments spend taxes raised by the Commonwealth Government. So long as the power to spend remains divorced from the need to tax, the essential balance in a parliamentary system is lacking and wasteful use of those taxes is inevitable. Commonwealth/State financial relations need overhaul to return real authority and real responsibility to the States.

The government must find money to pay for more fuel, spare parts and ammunition to allow more defence training. Also, \$1000 million are required now to bring service pay and conditions up to standards which ensure that the services do not lose excessive manpower and talent.

Choice and responsibility in the education system must be widened, so that students who choose a rigorous education can find and benefit from it. Excellence in teacher and student alike must be rewarded. Educational achievement needs to be raised.

The above is not a comprehensive list of all that should be tackled but most of its items would be accepted by most people. Yet each item requires choices which will offend well-entrenched vested interests. As there are narrow limits to political will, ways that maximise economic gains and minimise political resistance must be found.

Changes which benefit the whole national economy rather than parts of it will be politically feasible only if losing interests understand what they also have to gain, and if demands for 'better' management counterbalance the demands for handouts, protection, tax loopholes etc. The mandate must be generated before the election - if not by the Liberal Party then by others. The election is itself must be a mandate for change. Public demand for necessary reforms will then influence both parties.

The successful approach of the Heritage Foundation, in its renowned *Mandate for Leadership* and *Mandate II* papers, was to spell out politically difficult policies prior to the 1980 and 1984 US elections. Heritage showed where reform was needed and possible. It built a constituency for the long term and the common good of the United States and locked the new administration into some of it. The Australian Institute for Public Policy is working on an Australian *Mandate*.