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ON THE DRY SIDE   GOING FOR GROWTH OR FOR BROKE   John Hyde

The Hawke Government's policy of going for growth could all too easily degenerate into one of going for broke.

John Brunner (chief economist with BHP) writing for AIPP (25 Mount Street, Perth) puts the Government's growth policy in the context of Australia's mounting foreign debt. Like it or not, the government faces a dilemma. Either it must curtail growth or it must accept the risk of bleeding to death on foreign account. The dilemma is no less serious because it is also faced by some other countries and because it is not entirely of the government's making.

The Budget papers show that Treasury does not expect 1985-86 exports to pay for our imports and service our debts. We are unable to increase exports enough and unlikely, with high domestic demand, to curtail imports sufficiently to balance the current account. We are not yet a banana republic and we will service our debts. Therefore foreign capital inflows will have to balance our accounts with the rest of the world.

Although the current account deficit is expected to decline from 4.9% of GDP to 4.6% this year, it will still add $10 odd billion to our foreign indebtedness. By June 1986 this is quite likely to be a similar proportion of our GDP to that of the average developing country, and the ratios of debt and debt servicing costs to exports are likely to be half as high again as that of the average developing country.

Foreign capital invested in enterprises which in due course earn foreign exchange to service the debts incurred is no cause for alarm. The problem now is that, far from employing foreign capital in a manner that first finances tomorrow's foreign earnings and only then contributes to domestic living standards, we seem to be borrowing abroad to finance current consumption. For the past two years little foreign investment has gone directly into mining and manufacturing; instead it has gone to the finance-and-property and wholesale-and-retail sectors. At the point of first investment at least, most foreign capital will not be producing goods which increase exports or goods which decrease imports; it will not be earning or saving foreign exchange.

To enjoy a higher living standard than today's production will purchase is prodigal; it is reckless. We would be rescued from the need rein in living standards by a sustained commodities boom or we could rescue ourselves by improving capital and labour productivity. But unless Australia's productivity or terms of trade improve, and stay improved, there will come a day of reckoning when we can borrow no more. It is no good Mr. Keating being cross with 'irrational' foreign exchange markets; the value of the dollar reflects the rational fear that we might enter a debt and devaluation spiral like that which caught up with Argentina.

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Further evidence that we are overdoing consumption at the expense of investment is to be found in the domestic savings ratio. In 1970 we saved 25% of our GDP, in 1980: 22% and in 1983: 18%. From 1969-70 to 1984-85 private consumption increased only slightly more rapidly than GDP, but government consumption increased at nearly twice the rate of GDP. Total consumption increased by 71% but GDP by only 61%. Total fixed capital expenditure increased by 28.5% - only 40% as fast as consumption increased.

Falling investment accompanied by rising debt is not a sustainable combination.

The budget papers anticipate 4.5% real growth this year. In itself this is excellent, but only 1.2 percentage points will come from net exports - from the production of exports and of import-substituting goods. So far, in spite of the twenty percent devaluation, growth is being achieved by high domestic demand rather than enhanced international competitiveness. There is an inevitable delay between changes in the parity of our currency and a trade turnaround, and probably 1986-87 will look better, but how much better? Australian costs are formally locked in by an Accord which Mr Willis tells us makes Australia the only country to achieve full wage indexation. Perhaps they were locked in anyway by the power of the trade unions.

Until net exports catch up with what is required of them, to stimulate growth by stimulating domestic demand, as opposed to stimulating growth by reducing domestic costs, is to risk a foreign exchange crisis. Reducing costs by belt tightening is not part of the Government's program; private consumption is expected to grow by 3.25% this year. High domestic demand increases costs, thus decreasing the competitive edge of exporting industries and (in spite of scale economies) probably import-competing industries also. It certainly encourages imports.

The Treasury expects the foreign deficit to fall sharply this financial year. The foreign capital which is the counterpart of the current account deficit must be replaced by domestic savings; it must be replaced from consumption. There is little sign that Australians are yet willing to accept this discipline.

It would have been safer to have waited for the devaluation to do its job, but the trilogy, the Accord, and the promise of tax cuts lock the government into high growth now. Labor has done several sensible things for the micro economy which will eventually raise prouctivity and sustainable growth rates. In the mean time its whole macroeconomic package could explode on foreign account because trade union power prevents a decline in real earnings following the devaluation, and because the Government has taken a high risk path to quick growth because this was the easy way to gain trade union support for policies to improve activity and reduce unemployment.

The people who now draw attention to the risks inherent in the current policy value economic growth and respect the current

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leadership for sloughing off past Labor anti-growth shibboleths. They recognise that this government inherited the labour monopolies and regulated and uncompetitive industries. They know that these in the end are the major determinants of our living standard and the value of our currency. They sympathise with Mr. Keating, who must cope with what amounts to a trade union veto on living within our means: but to sympathise does not mean they, like Brer Rabbit, should lay low and say nothing.