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ON THE DRY SIDE 160 THE NEW YEAR John Hyde

At New Year all good men pay their debts and look to the future. Australians can't pay their foreign debts just yet, but we must assess our future.

Our prospects may not be as bad as Mr. John Laird says but they are almost certainly much worse than Mr. Keating says.

However, Mr. Keating's optimism gets some support from independent experts. Two who have argued that the 'doom and gloom merchants' have oversold their wares are Professor Corden (AFR December 18, 19 and 20) and Professor Gruen (The 1985 Shann Memorial Lecture).

Professor Corden argues that our foreign debt is not out of control if we just reduce the public sector borrowing requirement and restrain wages sufficiently. Professor Gruen argues that our mediocre per capita economic growth rate is reversible if only we escape the grasp of narrowly based interest groups, particularly those which dominate the labour markets.

The Reserve Bank, which blew the whistle on mounting foreign debt, and the IAC, which concerns itself with the economic depredation of narrowly based interest groups seem to take a less sanguine view of the long run. But if the domestic deficits were eliminated and the labour markets were to operate efficiently they too might accept that our problems are manageable.

Differing perceptions of national risk are influenced by differing assessments of the political processes which control the deficit and stand proxy for the labour markets.

To live as well as we are accustomed and to pay our debts we need to generate more real wealth. For a time we can borrow, but in the longer run we can be no wealthier than our production.

Professor Gruen: "Government is often not sufficiently powerful to impose economic change on resistant pressure groups...The result has been a sacrifice of economic growth for what are basically petty short run distributional considerations...our social organisation has tended to produce that outcome."

Although our terms of trade have moved against us somewhat, the principle reason for the collapse of our currency is not an invariable economic misfortune but the consensus view of those who buy and sell Australian currency that our 'social organisation' is unlikely to reduce the budget deficit and real wages. And that, in the short run at least, we are incapable or unwilling to mend our ways.

As we look ahead we should not underestimate the high social cost of economic failure. The overwhelming historical evidence is that people faced with sharply declining living standards are easily led into violence. Gentle and orderly people in desperation accept, even vote for, governments of great barbarity.

It is true that we are not yet in the same bad shape as Argentina and the present trend would need to continue several more years before we became an Argentina. We have not yet had our first International Monetary Fund dressing down. In time our luck might turn. Our exports might boom, foreign inflation might erode our real indebtedness, the Australian unions and the protected and regulated industries might abandon their productivity destroying habits and we might find a new market for winged pigs.

It is also true that (in spite of multiculturalism) we are a socially homogeneous people with few pre-existing social tensions; we will be slower to shed each others blood than the citizens of most countries.

But even a one in ten chance that we will repeat the history of Argentina, or worse of Weimar Germany, is far too high.

In our personal lives we insure against one-in-ten chances of much lesser disasters. When we pay premiums we accept the certainty of a little pain today to avoid the risk of much greater pain tomorrow. If the question were put to them in general terms most Australians would accept the small pains associated with reducing real wages and reducing the deficit; but can our social structures do it? The money markets are sceptical.

The Accord is an additional social structure, designed to curb the unaffordable demands of the cartelised labour force. Majority informed opinion (rather less than consensus) is that it has worked somewhat but that it is unlikely to cope adequately with the problem of excessive labour costs. Such restraint as there has been has been bought at a cost to the public sector borrowing requirement and the accord is about to sanction superannuation we cannot yet afford.

In the absence of fundamental changes to the social structures which determine labour costs I think something like the Accord is necessary. But the 'corporatist' mode of Government, of which the Accord is but an example, has its own dangers.

A Government which strikes bargains with those interests which are powerful enough to throw spanners in its works inevitably governs for the powerful interests with which it treats. In practice that is big unions, big businesses and the most highly organised lobbies. In practice it does not govern for even the rank and file nominally represented by these organisations, but for the commissars who run them. As corporatism confers power on those in the circle, life becomes increasingly uncertain on the outside and the law becomes increasingly unfair. The Government loses the 'legitimacy' upon which civil order ultimately depends. In societies, like Australia, in which government is particularly intrusive this is likely to be particularly the case.

We are not yet nearly a corporatist society, like say Italy of the 1920s, but the Government's relationship with ACTU and the

intimacy of State Governments with some business houses are reminiscent of early Fascism. Both are inconsistent with liberal Westminster democracy.

Obviously there are costs in over-emphasising risks, but without doubt there are much greater potential costs in complacency.

I can see no good reason to leave ourselves even half vulnerable to unnecessary serious pain in the event of a further adverse shift in our terms of trade, an armed conflict or a period of union militancy. If there is only a one sixth chance of each of these within, say, ten years, then there is an even money chance that one of them will occur.

John Laird and others who emphasise our vulnerability are telling us what will happen only if we do nothing to prevent it happening. We are still the lucky country and we could use 1986 to put our affairs in order.