ON THE DRY SIDE 168 JOHN BURTON John Hyde

Not much more than a century ago Britain enjoyed the highest standard of living in the world; less than a century ago Australia had the highest, yet neither is near the top now. The 'British Disease', of relative economic decline, can infect all nations.

Since it seems that under reasonably similar circumstances, similar policies produced similar symptoms, it is a good bet that the disease will respond in similar ways to similar treatments. Even though it is usually better to learn from others' mistakes than to make one's own, conservative organisations such as the bureaucracy, the ACTU, the Confederation of Industry, Business Council of Australia and indeed the Government itself obstinately persist with policies which have failed overseas.

"What Became of the Thatcher Revolution", a slim paper published by the Australian Institute for Public Policy explores lessons that can be learned from Thatcher's treatment of the British Disease. Its author, John Burton is Research Director of the Institute of Economic Affairs in London and Principal Research Officer of the Employment Research Centre at the University of Buckingham.

Burton describes the symptoms of 'British Disease' as sluggish economic growth since the Second World War, inflation, growth of government spending and taxation leading to a fiscal and international borrowing crisis, and a high level of unionisation and abuse of union power. Although it came down with the disease more recently than Britain, Australia suffers all of those symptoms.

Contracting the disease earlier than Australia, Britain recognised it earlier and tried the most of the quack remedies earlier. In the seventies a British 'Accord' was called the 'Social Contract'. It was hailed by big businesses and big unions but it broke down because it was unenforceable. "There are too many parties to such an unenforceable contract for it ever to be a workable policy in the long run", says Burton.

Like Fraser in 1975, Thatcher was elected promising to treat the disease. Unlike Fraser she tried seriously; she now has a record of successes and failures.

Like Fraser, Thatcher set out to cure inflation first by monetarist means. Fraser abandoned the policy after only two years by making the populist prediction, (which was interpreted as a promise) that interest rates would fall by two per cent. As it is impossible to control both the price and quantity of anything, Australian monetary aggregates expanded and Australian inflation drifted above that of our trading partners. It remains at 8% to 9% - more than double. Because of concurrent financial market deregulation Thatcher had difficulty interpreting the money supply but by tight, if erratic, monetary management she brought inflation down from about 20% per year to 5%.

She has reduced the budget deficit from some 10% of Gross National Product (GNP) to 2% which is about in line with many economies regarded as well managed. By 1984-85 Australia had a public sector borrowing requirement of about 6% of GNP.

Without those achievements cure of 'British Disease' would be impossible but alone they are insufficient. The central problem the Thatcher approach ran into was a "rigid labour market and a sclerotic economy". "...such monetary/fiscal policies plus the sclerosis induced by government regulation adds up to unemployment. One lesson to be learnt is that if you seek to control inflation by monetarist means it is vitally necessary to deregulate the labour market at the same time, if not before, to avoid the economic side effects..."

The United Kingdom experience should have shown the Business Council the need for deregulation, that their recent attitude to the Mudginberri dispute was correct and that they were utterly inconsistent to lambaste Howard over his advocacy of limited labour market deregulation.

There may be short run gains by regulation - the British Social Contract worked for a short while - but in the end these will prove to have been dearly bought if in the process the trade union monopoly is strengthened. We cannot know by how much wages would have risen in the absence of 'the Accord' but some Treasury Officers believe that what has been taken for wage restraint is no more than a lagged response to earlier money management and unemployment. An alternative view is that there has been some Accord induced restraint but that it has been dearly purchased. The price, so far, has been a veto over tax reform - both at the tax summit and of superannuation double dipping - and a promise to entrench the authority of the union bosses by the proposed superannuation package.

The long run solution to Britain's problems will lie with those who opt out, Eddy Shah and his employees, the Lancashire coal miners, Rupert Murdoch and the Electricians Union; not from a Social Contract. In Australia it will come from the slaughtermen at Mudginberri and at Wagga, the workers at Dollar Sweets and from the thousands of farm hands and other employees in very small businesses who are illegally opting out now. Whatever the immediate gains by regulation, in the long run the 'British Disease' will be cured only with policies which weaken the monopolies of both labour and capital.

I doubt whether one in ten Business Council members could clearly articulate a consistent set of options for the Australian labour market. That is fair enough, they are all busy men, but it is a poor basis for criticism of someone who has.

Thatcher and Fraser also tried to cut Government expenditure. They both failed. Their failure is a warning to politicians the world over that before expenditure and taxes will be reduced a lot of work has to be done to educate the public or an different approach has to be adopted.

The different approach is that of deregulation and privatisation. The economic gain here is not the money which sale of assets brings to the treasury, although that is no doubt a considerable political advantage. The gain is that assets are introduced to market discipline, entrepreneurial incentives and the tender care of ownership so that they are been better employed, reducing the financial load on the treasury and increasing production and the tax base. In the last four years Britain has had the highest rate of new enterprise formation in its history. Privatisation has been popular.

John Burton says "If the Thatcher Government had deregulated sharply and swiftly in its first term of office, and if it had faced the unions in its first term of office it would not have the troubles it faces now."