

ON THE DRY SIDE      HOWARD'S ECONOMIC STATEMENT      John Hyde

Neither Mr Hawke nor Mr Howard has told us how he intends to stop Australia becoming a banana republic. When they "addressed the nation" they avoided talking about some of the tough issues. I suppose this was because they could think of no credible soft policies and did not wish to alienate home buyers, car makers, farmers or other interest groups.

They might have misjudged the electorate. Our complacency has been jolted.

Australia must be made competitive again. No package of economic policies that does not explain how Australian unit costs are to be reduced is worth the candle. Only when our costs are at least comparable with other countries will living standards rise again and full employment be restored. The policies must be sufficient to banish inflation, and the domestic and foreign deficits. Other nations have managed these things and so should we.

The policies must be consistent with each other and certainty is to be preferred to speed. The hot-house growth of the past three years achieved by recourse to too much foreign debt and the 'Accord', which sought to contain wages by strengthening the ACTU, are mere palliatives with a price tag.

The party leaders should explain how they would cope immediately with inflation and the imbalance of payments but they must also explain how they will get rid of the underlying causes of these ills. How will they restructure industry and release employment from the grasp of the Industrial Relations Club?

The economic statements were not equally deficient Howard prescribed for the IR Club. Most commentators thought that Howard's package was the more comprehensive. Let us therefore build on it.

Ticking off what both parties agree: The Australian economy has problems, the symptoms of which are foreign debt, collapsing currency, inflation and unemployment. That the underlying cause of the crisis is the chronic ill of uncompetitive industry really is not disputed. There is even a rough consensus among, say, Button, Keating, Kerin and Walsh on the one hand and Howard, Carlton, Shack, Beale and Spender on the other that the causes of uncompetitiveness are excessive labour costs, over-regulation, protection from competition, declining terms of trade, and unequal and excessive taxation.

The arguments about blame are puerile, disingenuous and a distraction. The industry structure problem goes back to Menzies, the Accord is a disaster and the last Fraser budget and second Hawke budgets were both disgraceful.

Since Accord Mk II in September last year the trade weighted index has fallen 15%. The failure of the accords has shown that

wages policy is not within the government's control. Therefore the only available macro-economic instruments are the money supply, government spending and taxation. No combination of these will slash inflation, stop the foreign account bleeding and halve unemployment at the same time. Howard has said he will oppose full indexation and productivity award; the arbitration Commission seems to agree with him. It is not sufficient, but probably all that can be done within the system.

He committed himself to no real increase in Government spending. In all the circumstances that too is insufficient restraint; a small budget surplus to be achieved by cutting government expenditure would be more appropriate.

He should also commit himself to tight but steady money management, although that will mean continuing high interest rates. Until more fundamental things are attended to, it is the only way to hold the line on inflation and the dollar.

As that is about all that can be done to treat the symptoms, the chronic condition must be treated. The economy will muddle on long enough for it to be cured and no amount of crisis management will save us if it is not.

The chronic condition is the uncompetitiveness of industry. That is caused by costly work practices no-one wants; import barriers; costly uncompetitive airlines, railways, shipping, Telecom and Australia Post; taxes and welfare benefits which discourage work; regulated wages that are often too high and sometimes too low; unproductive new parliament houses, dams and pipelines; monopolies protected by fiat; and meddling Government departments. These are all the work of government. They all tie up resources in second, third or umpteenth best activities, and worse, they stifle initiative, stop entrepreneurship and discourage risk taking. In static or dynamic analysis they are economic suicide.

Howard spoke of business being mugged by regulation. The Liberal's policy for deregulation of the labour market is their finest achievement in Opposition. Without implementation of something like it there is little hope for us but it is not enough. The same sort of thing has to be done with all the other markets. The arguments Howard used to deregulate the capital markets and is using to defend his industrial relations policy apply to the many product markets. Just as financial deregulation could not work fully without labour market deregulation so labour market deregulation cannot work properly without product market deregulation.

All of the supply side of the economy, private and public, must be made (or allowed to be) more efficient. Australia cannot afford to run away from deregulation, eliminating protection or privatising government monopolies.

If, as the Liberals fear, these policies would alienate net

votes, Howard suffers a dilemma. Should he become the next Prime Minister he could not govern effectively avoiding deregulation and privatisation; too many of Australia's pragmatic competitors - with Communist, Socialist and Tory governments - are leaving us behind by deregulating and privatising.

Howard can be honest about it, accept his losses, and hope to get elected anyway - like Thatcher. He can say nothing and just deregulate - like Lange. He can say one thing in opposition and in office find an excuse to say all bets are off - like Hawke. Or he can do nothing about it in office - like nobody I can think of, although many like Canada's Mulroney have done less than hoped for.

Were he to make the running on deregulation not only would he experience the wrath of the vested interests and the consequences of their implausible horror stories about strikes, mail not delivered and aeroplanes falling out of the sky, but he would see Labor trying to adopt his policies as soon as he won support for them. (Financial deregulation, housing interest rates, working for the dole, and wage and expenditure restraint are examples of this already.)

An economic policy that does not annoy vested interests leads nowhere but that may not be understood. The genius of political leadership is closing the gaps between what is understood and what is necessary.

The supply side of Australian economy must become more flexible, otherwise we will go down the gurgler still bickering whether we are turning left or turning right. Howard's economic statement was a very good start to educating the public in what is necessary and in recapturing the Liberal's traditional high ground of economic management. However it was just that - a start.