ON THE DRY SIDE

Fraser's Budget error —not enough Thatcher

By JOHN HYDE, MP

POLITICAL consensus around a wrong approach does not make the approach correct; it should, however, be expected to make it popular.

Labor, who have long been calling for what amounts to a Keynesian stimulus to the Australian economy, are now suddenly confronted with a Keynesian stimulus and a political dilemma.

Although they no doubt have some genuine differences concerning the detail of the Budget, its broad strategy is their strategy. If they are both unable and unwilling to agree or to jump to the liberal side of the Liberal Party they can only move toward their doctrinaire and unpopular left wing.

The Fraser Government has captured what was the middle ground, the Labor Party, unwilling to share it, has moved over to the Left and in the process the middle itself has moved leftward.

Many past events, in this respect like the 1982-83 Budget, explain the often remarked phenomenon that for 30 years Labor has governed from the opposition benches. I believe the phenomenon also explains some of the un-luck of the lucky economy.

As worldwide recession has hit the economies of most nations, they have tried to cope with it in two broad ways. Some nations such as France, Canada and Ireland have tried to stimulate domestic demand by public sector expenditure financed by deficit budgets.

Others, of which the UK is the best example, have concentrated upon making their economies more efficient so that they might better compete in world markets and so that improved productivity will lift aggregate wealth. The British approach involves the radical restructuring of what was and in some parts, such

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as steel and railways, still is, a very flabby British industry. It seeks long-term benefits and accepts short-term costs.

It has meant a record number of business closures and at the same time a record number of business starts. It has been a bad time for established interests and a rather better time for the up and coming. It is associated with high levels of unemployment.

The approach adopted by Canada and others involves avoiding the pain of restructuring industry. It seeks to absorb the recession-induced slack with public sector-inspired projects. It seeks short-term benefits and knowingly or unknowingly accepts the long-term cost of poor productivity associated with public provision of goods or services and protected industries.

It means fewer business closures and fewer starts. It is not so bad a time for established interests but a very bad

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time for the up and coming. It also is associated with high levels of unemployment.

The Canadian (or Keynesian stimulus) approach in recent times has not been conspicuously successful anywhere it has been tried; however, if a stimulus can increase production rather than increase prices then in theory at least it should work in the short run.

Its efficacy is thus absolutely dependent on some means, other than the most efficient allocation of inputs (ruled out in Australia's case by public sector growth and recent tariff and import quota decisions), of controlling costs.

In practice that means a fall in real wages. Gross operating surplus of companies and unincorporated enterprises as a percentage of GDP is, at 22.51 per cent, already at its lowest for at least a decade.

During 1982/83 the Treasury expects gross product to fall. Unless real wage earnings also fall even more unemployment is inevitable. No amount of trade-union sophistry should be allowed to hide this hard and singularly unpleasant fact.

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In response to the now customary accurate Budget leaks, Labor might have conceded that we were about to adopt their broad strategy, instead of shifting their ground to demand a deficit $1,000 million larger than they had thought ideal.

Not only would the middle ground have been moved a lesser way to the left, but the consensus might have offered the unions a small encouragement to moderate their demands — as might conspicuous wage restraint on the part of community and corporate leaders and repeated explanations of the cruel employment consequences of the coincidence of rising real wages and falling real product.

Only if a UK type strategy is accepted in real product likely to grow fast enough to keep ahead of wage demands and then only after the elapse of some few years of adjustment. It is a long-term strategy difficult in the short run. Not many democratic governments seem to have the stomach for it. Even so I predict that by the end of this recession the UK will be looking better than Canada, Ireland or France.

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