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THE LONG TERM

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A nation whose economy is not growing becomes increasingly hard to govern. An economy that grows no faster than its population plays a zero sum game. For every win there must be an equal loss and for every winner a loser. Everyone competes for a share of a pie that gets no larger. People who already have a share quickly come to regard that share as their share by right,- note trade union demands that real income should be maintained in spite of the plight of the unemployed and perilously low investment in new plant and equipment.

When we fight for shares of a constant pie established interests have all the advantage. They usually end up with their interests more or less intact but the resentment of other interests can be intense -- note the Brixton riots.

If the pie actually gets smaller, as the Australian pie did over the past financial year, then even established interests must yield ground. They do so reluctantly, and like all slow old players, they know more foul play than even a sharp eyed umpire can penalise - and the umpires' eyes are none too sharp-- note BHP's [demands for] increased protection taken at the expense of other players of the zero (or falling) sum game.

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Economic growth rates and the problems of the long term do not get the attention they deserve. Journalism and politics are preoccupied with the business cycle. Questions like: - when will the recovery come ? - what is the state of demand ? - have US interest rates turned the corner ? -are continually asked. But these questions are not asked :- is our reinvestment adequate ? - why are our growth rates so poor ? - do we have the economic and political structures to keep our children in the manner they expect ? - are those structures flexible enough or are we locked into obsolete practices ? - is our capital equipment up to date ?- what will be the effect of public debt on future capital formation ? - are today' public aspirations consistent with tomorrow's wellbeing?

Debate has concentrated on demand management and the short run, ignoring supply and the long term. As we have bumped along up and down over the hills and trough of the business cycle, we have lost sight of the important fact that, relative other countries, we are falling behind.

It does not matter much if a government makes just one decision that reduces just one year's economic growth from, say, $2\frac{1}{2}$ % to $1\frac{1}{2}$ %, but if similar decisions are taken every year, then after twenty years, all other things being equal, living standards will have risen by only 35 % instead of 64 %. If the population grows by $1\frac{1}{2}$ % per year then living standards will stand still instead of improving by 22 %.

Not only does growth itself compound but so do the political problems associated with coping with poor growth. Argentina was once a wealthy nation. Thirty years of bad management have reduced her to making petty wars to take her people's minds off their troubles. Galtieri's invasion of the Falklands was inexcusable and the treatment of his people savage,but his government was not responsible for the underlying problem which was poor growth, giving rise to a disappointed, disenchante rebellious people. From 1974 to 1980 the Argentine gross product per head of population - a pretty fair proxy for standard of living - fell by 23 %. Lawyers say that hard cases make bad law : ungovernable times make bad statesmen.

In Argentina inflation had become endemic rising at times to over 300 % as successive governments tried to inflate out of recession. Four times orthodox macro policies, a wage-price freeze and stringent monetary policy was attempted to bring inflation under control, but because so much of the economy was protected by tariffs, controls, government purchasing orders and trade unions, and because nobody expected the government to have the fortitude to see its measures through, anti-inflationary policy,at least initially, had more effect on the quantity of goods consumed than prices. So recession set in; government panicked or there was a coup; and the policy was reversed before it could have lasting benefit.

The Argentinians found themselves on a treadmill of inflation with a balance of payments crisis, recession, fiscal deficit and industry protection, inflation and payments crisis, and so on again. They have not yet been able to step off the treadmill. Each time it goes round it leaves a worse legacy for the next time.

Governments have tried to break the cycle but it takes a long time and each attempt initially induced deep recession. No government has been able to maintain even the low level of consensus that is required in a military dictatorship for long enough to get on top of the problem. The government always has been too weak to see its policies through to lasting results. The vested interests, used to manipulating governments and reluctant to give up their share of pie, always have made the task too hard. In the end Galtieri tried to purchase consensus with what he hoped would be a cheap war. It wasn't.

Without growth there could be no consensus; without consensus there could be no economic discipline; without discipline there could be no growth; catch 22.

An interesting paper, given by Mr. John Fogarty, to this year's ANZAAS congress, makes the point that in many important ways Australia is like Argentina. I wish that I had had it at my elbow during some of the "drys" differences of opinion with the last government about adequate appreciation of the needs of the long term--government debt, regulation, structural adjustment,- to name a few of the issues. We feared that Australia too would get to a point where it became too politically difficult to effect recovery, but we lacked such a carefully prepared example of the consequences of too much short run populism and failure to tackle problems while they were still manageable.