

Wrecked on an island and alone, at day one Robinson Crusoe's meagre standard of living was his production less what he put aside to consume or use another day. Consumption exactly equalled production less both stock building and the acquisition of productive capital. Consumption could not exceed production.

By saving, Crusoe acquired gradually stocks to tide him over hard times and tools to improve his productivity. He also gained the option of temporarily subsidising his living standard by consuming his stocks or by not replacing his tools as fast as they wore out. While his capital lasted consumption could equal production and dissaving. It is unlikely that at that early stage Crusoe had any illusions about the relationship of consumption to production.

When Man Friday arrived, after a lag for tooling up, production probably doubled. Actually it probably more than doubled because of the advantages of specialization and economies of scale but that point is not relevant to this argument. ( It should be remembered when thinking about tariffs.) The relevant point is that Crusoe then had another way of increasing his living standard - Man Friday could subsidise him. Total consumption still equalled total production plus dissaving, and dissaving remained a short run option only.

Not wishing to strain his readers' credulity Defoe omitted the following events from his account.

Both Crusoe and Man Friday resented any restriction on their standard of living, and both felt the other was getting more than fair shakes. They elected a Government of the two most suitable people. The Government in turn instituted a social welfare system so that no-one need ever be in need again, and an industrial arbitration system to determine shares of what they produced. This was done in a bountiful year.

For several years, though they wasted time striking, taking sickies and arbitrating, which could have been employed gathering coconuts and building huts, their living standard slowly rose. Then they struck a poor year; and production declined. Each said as it was not his fault that his effort was worth less, it was inconceivable that he should be asked to suffer a reduced living standard; the job of the Arbitration Commission was to maintain living standards.

Crusoe and Man Friday solemnly sat as the Arbitration Commission and fixed shares by indexing forward last year's shares, and granted themselves a productivity increase for gathering drift wood. They knew that this policy was not sustainable, so they met as Parliament and noted that consumption always equals production plus dissaving, but could not bring themselves to abolish the Arbitration Commission or even to confine social welfare to occasions when one of them was truly sick. Each expected his amount of produce to be maintained even if it meant that the other must subsidise him.

Defoe had it that they then got sensible, prospered and were finally rescued. But Defoe was a sentimental fellow; an old salt told me of a man he knew, who found their whited bones and Crusoe's diary.

Mr. John Brunner, BHP's chief economist, has published some chilling figures which show by (how much Australian productivity has failed to keep pace with living standards,) over the thirteen years since 1969/70. Like Crusoe's and Friday's economy, consumption must equal production plus dissaving, but unlike the closed island economy, the dissaving element of the equation can include creation of foreign debt, a practice which postpones the day of reckoning. Argentina and others could now testify that the practice is not without its drawbacks. Borrowing to invest must be distinguished from borrowing to consume. Debt which finances additions to the capital stock makes no difference to the bottom line of a national balance sheet, but debt which finances consumption reduces net worth.

See how Argentina-like we are. This table is from John Brunner's study.

Percentage Increase in components of Australian Real GDP 1969/70 - 1982/83

Private Consumption .....	51.1%
Government Consumption.....	84.4%
<u>Total Consumption.....</u>	<u>57.2%</u>
Private Gross Fixed Capital Expenditure.....	25.5%
Public Gross Fixed Capital Expenditure.....	15.7%
<u>Total Gross Fixed Capital Expenditure .....</u>	<u>22.0%</u>
Exports of Goods and Services.....	54.0%
Gross Domestic Product .....	43.4%

SOURCE: Quarterly Estimates of National Income and Expenditure, Sept. Quarter 1983.

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(Consumption has outstripped production by 57% to 43%.) (Government consumption rose by 84% while private consumption rose by 51% - strong evidence that our governments are more rapacious than our unions.) Consumption made gains in the only places which, in the absence of comparable production, it could - by borrowing from foreigners and by squeezing investment. Consumption outstripped investment by 57% to 22%. (Government investment increased by 16% and private investment by 25% - evidence that our governments are even less mindful of the future than is the community.)

It is doubtful if a 16% or even a 25% investment increment over 13 years of high inflation has been sufficient to compensate for depreciation. If it has not, then our capital stock has actually declined and we have fewer tools to work with than 13 years ago. Unlike Crusoe and Friday, the Australian population has increased by 17.6%. (Investment per head has certainly declined.)

As in the "true" account of the Adventures of Robinson Crusoe, Australia ran into a bad year; in fact several bad years. Two oil hikes and falling commodity prices moved our terms of trade against us. During those thirteen years import prices rose by 330%, while export prices rose by only 271%. This unfortunate fact made us poorer than we would have been without it. Never the less wages and social security payments increased the standard <sup>of</sup> living instead of tailoring it to national fortune. By consuming our capital stock, particularly our net of debt, per capita capital we have lived off the future.

My Crusoe and Man Friday were seen to be trying to subsidise themselves; we are no less ridiculous.