

A LESSON FROM ARGENTINA.

A nation whose economy is not growing becomes increasingly hard to govern. It becomes a zero sum game with anybody's gain being somebody else's loss. People are reluctant to part with gains they have already made, to meet others' needs and social tensions mount.

Journalism and politics are preoccupied with the business cycle as it bumps along from boom to recession and back. Debate concentrates on demand management and the short run, ignoring supply and the long term. We have lost sight of the vital fact that we are slipping behind other countries which not so long ago were poorer than Australia.

We can learn from Argentina where our mistakes have been made on a grander scale. Galtieri's invasion of the Falklands was inexcusable and the treatment of his own people savage, but his government was not responsible for the underlying problem, which was poor growth giving rise to a disappointed, disenchanting, and rebellious people.

From 1974 to 1980 the Argentine gross product per head - a pretty fair proxy for standard of living - fell by 23%. In Argentina inflation has become endemic, rising at times to 300%, as successive governments tried to inflate out of recession.

Four times orthodox macro-economic policies; a stringent monetary policy and a wage-price freeze, were tried to bring inflation under control, but because so much of the economy was protected by tariffs, controls, government purchasing orders, and unions, and because nobody expected the government to see its measures through, anti-inflationary policy had more affect on the amount of goods consumed than the 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, budget deficit and industry protection, inflation with a payments crisis, and so on again.

They have not yet been able to get 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.

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

The government has always been too weak to see its policies through to lasting results. In the end Galtieri tried to purchase consensus with what he hoped would be a cheap war. It wasn't.

An interesting paper by Mr. John Fogarty, delivered to this year's ANZAAS congress, makes the point that in many important ways Australia is like Argentina.

We haven't made mistakes on the same grand scale as Argentina, and we have been luckier, but the 'Lucky Country' has been very careless about its long term economic strength. Government debt, anti-competitive regulation, protected industry, union monopolies, capital market distortions and fairly heavy taxation have all caused Australians to employ their good fortune badly. Relative to other nations we are gradually getting poorer. Argentina type problems are not just round the corner, but neither if we continue to mismanage our economy, can we escape them for ever.