Delivered 28/11/84

S U N D A Y   I N D E P E N D E N T   No.FORTY-ONE   Pub. Date 2/12/84

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AUSTRALIAN AND UNITED STATES DEFICIT

Among Mr. Hawke's many campaign promises was one to reduce the Australian Commonwealth budget deficit without raising taxes. At one stage, well before the election campaign, he even undertook to offer Mr. Reagan some advice on the U.S. deficit which is having the untoward effect of driving up interest rates all over the world.Unlike his advice to Kim Hughes about dropping catches, Mr. Hawke dropped the subject of the U.S. deficit; perhaps because it occurred to him that Mr. Reagan was unlikely to be easily influenced; perhaps because someone pointed out to him that he was throwing stones from a glass house. Proportionately the Australian public sector deficit is much larger than the United States deficit.

It is well to keep the 7% Australian public sector borrowing requirement well in mind when discussing the U.S. deficit which is so roundly condemned by everybody.

In 1983, the U.S.Federal deficit equalled 5.5% of their gross domestic product. However, unlike Australia, where State and Local Government contribute substantially to public debt, U.S. State and Local Authorities are in surplus to the order of 1.6% of GDP. Their nett public sector borrowing requirement is about 4.0% of GDP. This does not mean that the U.S. has not got a problem. It has; and so have we.

This is what the Brookings Institute had to say about the U.S. deficit: "High deficits in the Federal Budget, together with high interest rates, are endangering the future growth of the U.S. economy and undermining the ability of American industry to compete in world markets."

Brookings is in effect accusing Mr. Reagan of being a fiscal 'wet' or 'wimp' even though it is usually to be reckoned on the more interventionist or, as the Americans say, 'liberal' side of politics.Attitudes to deficits are changing.

Brookings' central objection to the high budget deficit is that it will reduce economic growth by increasing consumption at the expense of investment. Mr.John Stone said as much about the Australian deficit back in 1979, but unfortunately little notice was taken of him by the politicians.

Brookings note that in the short run fiscal deficits, even when accompanied by tight money, are stimulatory but "the result is a shift in the mix of total spending - more resources for consumption, less for investment and housing. A low level of investment in plant and equipment is likely to reduce productivity increases and hamper economic growth in the long run. Penalising investment is borrowing from the future to increase consumption now."

Since, printing money aside, a government deficit must be financed by the same funds that private investors seek, either private investment is curbed or funds are borrowed from abroad. The mechanism is higher interest rates which snuff out some private investments and attract foreign investors. Having driven private investors out, governments use the money to increase consumption expenditures like Medicare. The balance of spending is shifted from investment to consumption - from the future to today.

Further: to the extent that fiscal deficits are financed overseas they punish the part of the economy which produces traded goods. Capital inflow must be matched by a deficit on current account - that is more imports and/ or fewer exports.

Our deficit, which is even larger than the U.S. deficit, must be cut. Let us hope that our politicians become men of their words on this matter. It has not been their record.