

NATION-BUILDING

If the 1991 Job Statement had put all three together in a package, and added around a billion or so more on direct job creation through local government programs, the problem of unemployment and low investment which still plagues the nation would have probably been significantly reduced by now. But the bits and pieces approach since November 1991 has been too small and too disjointed to produce the necessary results. *One Nation II* will add \$2.5 billion to the budget deficit over a four year period without a single new job being guaranteed to result. The government appears to be treating these so-called economic statements as political tools to try to head off the Coalition. The only other conclusion is that they are getting very poor advice from their well-paid staff and/or the bureaucracy.

All three statements demonstrate the same difficulty: the time-frame involved in setting a policy parameter and waiting for it to work is too long for the media, and probably for the media-besotted public. The public seem to believe that if a new policy is not announced each month or so then the government is not doing anything about the economic malaise. The fact is that policy parameters should be only infrequently changed because too much discretionary variation only clouds cause and effect. *One Nation* was a modest initiative, but even so the effects of the spending boost are only going to be seen in the next 12 months. *One Nation* has not failed; it just hasn't started to work yet because of the lags in implementation and effect inherent in any economic system.

However, considered in isolation from this history of politically-driven announcements, *One Nation II* contains economic initiatives which are both good and bad. It has three basic components: a business incentive plan for investment; a recognition that more compassion is needed to alleviate some of the problems arising from the recession and the large number of working mothers; and a toothless apology that financial deregulation gave us more problems than benefits.

The business incentive plan in-

volves a 10% general investment allowance supporting the depreciation benefits in *One Nation* and generalising assistance to all sizes of business—as well as the surprising 'catch-the-coalition-with-its-pants-down' reduction in company tax rates to 33% from the already too low 39%. These tax cuts will improve the cash position of firms—but then so did the substantial wage moderation of the 1980s, which was largely wasted in the frenzied feeding in the share and property markets. But given dividend imputation the move is really a transfer of the tax burden from companies to shareholders, although it may stimulate interest from overseas companies. The increased gap between the corporate tax rate and the top personal tax rates provides further incentive for the Hewson-style tax cheat mentality unless top personal rates are brought down significantly. And the loss of fiscal flexibility from continued rounds of tax cuts is damaging to the role of the public sector in the economy. While, in the short run, continued privatisation of the Commonwealth Bank and some nifty rearrangement of the timing of company tax payments may help pay for the loss of revenue, over time the structural addition to the deficit will have to be addressed.

One Nation II also seeks to demonstrate some compassion. It expands child-care places (150,000 by 2001), introduces a 30% cash rebate on expenditure up to a weekly limit depending on family size, and gives the unemployed more scope to work part-time without penalty. However, the child-care rebates are not targeted, a break with the more sensible approach adopted by the government previously of strictly means-tested assistance.

With welfare budgets under constant attack it is surprising that the government would allow the public purse to subsidise the affluent—who have not been the main sufferers in harsh economic losses associated with unemployment. I would certainly have made the assistance more generous by

One Nation II is the third major statement from the Labor government about their plans to revive the flagging economy. The Hawke jobs statement (which was about training rather than jobs) came first and was followed by Paul Keating's One Nation—which promised very few actual jobs. Now we have the second coming of One Nation.

targeting it to those who need it the most. Yet the proposal is still superior to the Coalition's plan of providing a tax rebate for child-care expenses. For a start, the beneficiaries will not have to wait until the end of the financial year to get the cash assistance.

There has always been a problem with the interface between the labour market and the welfare system. People on unemployment benefits often get caught in the poverty trap, because they lose disproportionate amounts from their benefits if they earn even modestly from part-time work. The incentive to work is thus lost. *One Nation II* addresses this issue by allowing an unemployment benefits recipient to earn up to \$990 a fortnight without any benefit reduction. This clearly helps the unemployed to increase their disposable incomes and perhaps maintain some sort of attachment to the labour market. And it may increase the probability of re-entering full-time employment as it becomes available.

But it also may institutionalise the unemployment dilemma. We simply cannot be content with hundreds of thousands of people eking out an ex-

istence through a mixture of unemployment benefit and part-time work in some dead-end job. It would have been far better to increase the dole payment directly. This would have stimulated aggregate demand, relieved the income deficiencies of the unemployed in general and provided an incentive to government to get people back into full-time work.

In fact, the chief failing of the government's stance since November 1991 has been the lack of real effort to get the job market moving again. Initially the government claimed that rising unemployment was largely due to structural factors and thus that individuals themselves lacked the necessary skills. So the victims were provided with training schemes. Still the unemployment queues increased. In fact, the overwhelming proportion of unemployment is due to demand deficiency arising from a downturn in investment—probably as a reaction to years of ridiculously high interest rates. There has been no demand, no sales, and no reason for firms to fully employ the labour force.

One Nation recognised this but gave only a muted and staggered stimu-

lus. The results are yet to be realised but they will be small.

One Nation II has finally abandoned the structural fudge which Dawkins and others have been peddling mindlessly for two or more years. While *One Nation* was about public infrastructure development, the revised version focuses mainly on stimulating the private sector. But investment is like a snowball; it takes a long time to roll into any sort of reasonable size. There will be no immediate jobs emerging from this package.

Yet, while it is easy to criticise any initiative in the current very difficult economic circumstances as inadequate, the fact remains that modest growth is returning to the economy and significant productivity gains will be forthcoming as the co-operative approach to industrial relations continues to rearrange our antiquated workplaces. The government strategy remains superior in every way to the mayhem which will follow if the Coalition is let loose on the nation. ■ **BILL MITCHELL** teaches in economics at the University of Newcastle. He is Director of Economic Outlook Pty. Ltd.

ROUGE AWAKENING

In April 1992 heavily-armed Khmer Rouge troops stormed a village in central Cambodia and murdered seven ethnic Vietnamese civilians.

The UN's Transitional Authority in Cambodia (UNTAC) sent a representative to the village, and locals appealed to UNTAC to station ten troops there for their protection. But this was not done and, in May, the Khmer Rouge struck again. The people have lost hope, a local official said. Nearly 1500 people fled the village. In July, near the Vietnamese border, an ethnic Vietnamese couple and their seven-day old son, four other children aged seven to 16—Cambodians whose grandmother was Vietnamese—and their uncle, were all massacred and mutilated by Khmer Rouge gunmen. And the Khmer Rouge threatened yet another racial pogrom after the US Chief of Mission in Phnom Penh, Charles Twining, stated his fear that history might repeat itself, with bodies of ethnic Vietnamese floating down the Mekong as in 1970. Khmer Rouge

leader Khieu Samphan shot back: "If the Cambodian people cannot see a peaceful resolution to the problem, they will seek other means. So Twining's nightmare might become a reality".

Khieu Samphan was as good as his word. In October the bodies of ten ethnic Vietnamese civilians were discovered floating off the Cambodian coast, and a senior Khmer Rouge commander admitted that his guerrillas had kidnapped eight more. In December 1992 the bodies of three more Vietnamese fishermen were found floating in the Mekong River in north-east Cambodia. Soon after, in what was described as "the deadliest violation of the Cambodian peace accord", two boatloads of Khmer Rouge troops entered a fishing village in central Cambodia and murdered 13 ethnic Vietnamese, including six females and