

# ALR

## MARGINS

### *What Do I Do Now?*

Paul Keating suggested he was humbled the night he was elected leader of the Labor Party and Prime Minister. But I bet when he said it his mind was less on homage to Party and Country than on the question which confronts us all in hard times: what should I do now?

It seems ironic that Keating should become PM now; after all, isn't he the man who 'caused the recession'? But the Australian economy would have been hit by the world economic slowdown sooner or later. What Keating should take responsibility for is his inability to address the structural imbalances that typify our type of economy—imbalances which in turn set very definite limits on the scope for policy to 'kick-start' the economy.

In the last issue of *ALR* I argued that active government policies are required to activate the structural change needed for sustainable growth. I don't expect those longer term issues to be addressed in the government's do-or-die Economic Statement due later this month: the electorate wants immediate results. So here I'll rather look at what could practicably be done in the February Statement.

What can be done in the trade sphere? It may be that the chagrin displayed by Australian farmers to President Bush has softened up the country for a change in our trade policies. Even though tariffs and

quotas threaten the machismo of free traders, similar effects can be achieved pragmatically with export enhancement schemes.

Export facilitation is gaining some respectability. One method is to allow credits to manufacturers for exports which allow reductions on imported goods used in the industry. Another method is to refund the indirect taxes paid on goods for export. The idea is that wholesale and payroll taxes add to the cost of exports and hinder their competitiveness. The Opposition's GST package will effectively exempt exports after this fashion. Under the existing tax regime such a 'refund' might be more difficult, but stronger action might be taken in the form of outright subsidies or creative tax advantages for exporters.

If the government feels bound to tariff reductions, an old idea might resurface—a whispered heresy in the corridors of treasury in the late 1970s. The idea is that as tariffs are reduced they are replaced by a tax of the same amount so consumers initially derive no benefit. The revenue from the tax is then used to relocate workers laid off by the tariff reductions, and the tax is scaled down as employment in new industries picks up.

Heads of corporations have had the ear of the PM over recent days. Their push for accelerated depreciation allowances will probably be rewarded. They are a cost to revenue, but one not apparent to the electorate. If they are adopted they should be targetted to investment in the tradeable good sector. However, the past record of these schemes is not encouraging.

Treasurer Dawkins is flirting with the idea of a direct fiscal stimulus to reflate demand: but what form will it take? Infrastructure investment can offer a 'big bang for the buck' in the short term. Alternatively, community employment programmes have some appeal—particularly in areas like Wollongong, Geelong and Newcastle. Targetting employment creation at youth and those without formal qualifications addresses a pressing equity issue, and recognises

that these people are likely to be the last hired after the economy picks up.

Might the time at last be right for some attention to be paid to the distribution of income? Here Hewson's GST has opened the door a little for a Government traditionally timid in this area. ACOSS has complemented Hewson for attacking the superannuation rorts which favour those on high incomes. Labor should knock them off now and use the increased revenue for jobs. Take it further: why not a wealth tax? Too much private wealth has been accumulating under superannuation tax shelters and the negative gearing of real estate. Knock off negative gearing, and use the tax savings for low cost public housing in the inner cities, where rents are stable.

What can be done about super funds? They are flush with funds, and it is quite possible they could trigger a new asset boom and then be caught in the bust. The compulsory wage component should not be entrusted to an unsupervised private market. If more certain but lower rates of return were agreed to, the funds could be used for urban consolidation and inner-city housing. Buyers could use their super contributions as surety; it seems to work in Singapore and Germany.

Very little of the above, however, offers a foundation for sustainable growth. The heart of the matter is that 18 months is not enough time to get results from the substantial industry policies that are required to build up the country's productive base enough to remove the external constraint to growth. The fundamental problem Keating faces in his Statement is this: policies that offer immediate results won't produce sustainable gains; and policies that may offer such gains in the future will not only take time to work, but in the short run will make indicators like the trade balance worse.

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