where there has been some government-industry co-operative planning.

While Paul Keating appears to want to believe that there must have been some gain from the pain of the recession, a more realistic view would find no reason to conclude that we are better off structurally now than we were in 1989. Indeed, since the recession has brought a dramatic collapse in investment expenditure on plant and equipment, one might suspect that we are worse off.

The recovery strategy does include some initiatives aimed at stimulating the level of private investment: more generous depreciation allowances and improved access to finance for certain types of investment expenditure. The latter proposal betokens some small hint of a more targeted approach, since the criteria include industry efficiency standards (the absence of tariff protection, efficient work practices). However, there is no attempt to provide specific incentives for investment in, or even to identify, particular industries whose development can provide an improved basis for economic growth by easing the external constraint. The argument that governments cannot pick winners, and that structural adjustment must be left to market forces, dies hard, especially in the light of the examples provided by the recent debacles of several state governments. Nevertheless, the high levels of private investment expenditure of the late 1980s, the direction of which was driven by market forces, did not flow into areas which might have improved the structure of the Australian economy.

Without an easing of the external constraint, we are condemned to more of the stop-go policies of the last decade. The One Nation document’s illustrative ‘scenarios’ concede that the forecast 4.75% GDP growth for 1992-93 will entail a deterioration in the current account—yet, according to the ‘scenario’ the current account magically improves down the track even though strong economic growth continues. A more likely scenario if the projected growth rates are achieved is a continuing deterioration in the current account—a deterioration which will require the reapplying of the monetary and fiscal brakes.

There is evidence of some breakout in official thinking about economic policy in Australia, from the sterile and narrow prejudices of recent years. For those who see advantages in a more active role for the federal government in the structural development of the Australian economy, and the scope for increased government-industry co-operative planning, One Nation was certainly a step in the right direction—but without some attention to the fundamental structural problems, it will not be nearly enough.

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The logic of austerity

There is a story about in Left-of-centre politics which goes something like this. In the 1980s public policy was dominated by the set of ideas conventionally summed up in shorthand fashion as ‘economic rationalism’—meaning, variously, a belief in the superior allocative skills of ‘free’ markets over governments, or an irrational prejudice in favour of the private as against the public sector or, again, a belief in the need for government spending to be continually cur-tailed. As a result the public sector, in relative terms, contracted, welfare became more closely targeted, and public infrastructure ran down.

Over the last few months, however, so the argument runs, there has been a seachange in the public debate—one marked, ironically, by Paul Keating’s accession to the prime ministership. The One Nation statement is sometimes taken as the token of this seachange. According to this argument, One Nation marks a vital point of departure from the orthodoxies of the 80s. It revives the idea of public spending as an antidote to economic slump; it places new importance on infrastructure spending; it hints at new
initiatives to stimulate industry. Keynes may not be dead after all. (This is, of course, the mere skeleton off the story. In another, 'Left', variation, 'economic rationalism' is still alive and well, and won't be going away until Labor is magically replaced as the major force in Left-of-centre politics by any one of a number of competing 'alternatives'.)

We want to argue here that this story, while a seductive one, is not a very plausible analysis either of the current economic climate or of the shift in emphasis, such as it is, in public policy. We do not seek to do this out of a spirit of wilful perversity. Nor are we suggesting that the language of economic constraint is somehow good for the soul. Still less are we motivated by misplaced sympathy with the goals of 'economic rationalism'. Rather, we aim to explain why it is that the waning of the (as marxists used to call it) subjective belief in certain economic and political doctrines is essentially unrelated to the real and 'objective' economic constraints which continue to trap public policy in Australia today.

There's no doubt that in certain (mostly modest) respects the One Nation statement represents a tangible shift in thinking from the non-interventionist stance towards industry and infrastructure of the 1980s. However, there are two essentially distinct issues here. The first is the economic and political assumptions upon which the policy is based. If 'policy dexterity' means a shift away from the intellectual straitjacket of anti-interventionism then, in principle at least, that is all to the good. At the practical level, of course, this is only the first hurdle: the fact of being more disposed towards intervention does not for a moment suggest that the forms of intervention adopted must necessarily be wise ones—as the evidence of various state-level interventionist failures in the 1980s attests.

But it is the most arrant wishful thinking (or worse) to suggest that something has happened over the last few months to abolish the real ('objective') constraints on public policy's room to move. And this is, of course, precisely what One Nation tries to do. Its 'scenarios' for Australia's economic development over the next five years are almost universally regarded by independent commentators as laughable; as Peter Walsh implied in our last issue, they were probably dreamt up in the prime minister's office. And to the extent that One Nation's bodgie figures serve to spirit away some of the genuine imperatives for economic austerity in the last few years, we think that it should be condemned by anyone on the Left with a concern for intellectual rigour and consistency.

(i) The magnitude of the problem
As Trevor Stegman argues above, there is a single issue which overshadows Australian public policy today, and it is the nature and extent of the external constraint on Australia's ability to achieve sustainable economic growth. Parly perhaps as a result of Paul Keating's success in banishing the problem from public debate over the last few months, there seems to a certain forgetfulness at present about quite how monstrous is the degree of this incubus. One statistic may be enough to focus our minds on the problem. The Sydney Morning Herald's Paul Cleary notes (20.4.92) that the most optimistic scenario in the Opposition's Fightback! package is scenario C. Under scenario C, 'in the best of all possible worlds', Australia's foreign debt is predicted to rise to 54% of GDP by 2001. This, as Cleary notes, is some constraint. It would dwarf the impact of foreign investment in real estate in this country which regularly works righteous Left pundits into a lather. It would remove virtually any freedom to move for Australian policymakers.

The current account constraint dominates economic policy more narrowly, but it also casts its shadow over all other areas of policy which rely on the fruits of economic growth for their wellbeing. For the fundamental dilemma of our economic situation for Left-of-centre politics is this. The political compromise of postwar society required that increases in social expenditure be funded through economic growth rather than redistribution. Yet our external constraint is such that, in the absence of any fundamental change in the structure of the Australian economy, any increase in economic growth serves only to increase our indebtedness and further tighten the screws on the room to move of public policy.

(ii) The theory
There is, of course, an attitude on the Left which says that this need not be our concern. After all, the bulk of the debt is private: why should governments have to tighten their belts to make up for the foolishness of our failed 'entrepreneurs'? And this has been mirrored by similar arguments from the Right—most notably from Professor John Pitchford of the Australian National University, who suggests that governments ought to leave the debt problem to the private sector to solve. There are sound practical reasons for finding this point of view absurd; after all, surely the Left more than anyone else ought to be concerned with the consequences of objective economic forces which threaten to rob us of whatever level of economic sovereignty persists in this world of internationalised economies.

However, there are also compelling theoretical reasons for suggesting that economic dissidents in particular ought to take the external constraint more seriously than does...
However, there are also compelling theoretical reasons for suggesting that economic dissidents in particular ought to take the external constraint more seriously than does Professor Pitchford. Here a historical parallel comes to mind. In the 1930s, Keynes’s economics provided legitimacy for the instinct of many policy-makers that the slump ought to be alleviated by increasing public spending, particularly on public works. Less well-known, however, is that the bulk of orthodox economists tacitly went along with Keynes’s view, even though their theory strongly rejected it. Only a few diehards, notably at the London School of Economics (LSE), continued to argue, Canute-like, that the best response to slump was to further reduce public spending.

Professor Pitchford bears an uncanny resemblance to those old diehards of the LSE. He wants orthodox economists to take their theory seriously. And, strictly speaking, he is right. For orthodox economic theory, as Tony Aspromourgos has elsewhere pointed out, has no answer to the question of why countries like Australia develop permanent structurally-based balance of payments problems. The assumption of orthodox theory is that any current account constraint will be only a transitory one. Put crudely, the theory believes that, left to itself, the market will move to solve the problem by readjusting the nation’s real exchange rate at a more appropriate level, and the system will fairly quickly return unaided to equilibrium. There is no need for any regime of fiscal austerity, any more than there is a need for active industrial policy to try to alter the structure of the economy.

Political and economic dissidents, however, have a different body of theory at their disposal, and it comes to quite different conclusions. In this view, the current account constraint of nations with a persistent trade deficit cannot be left to ‘solution’ by market forces, for two reasons. First, there is no reason to assume that market forces will establish an appropriate real exchange rate, or establish it quickly. Second, there is no reason to assume that market forces, left to themselves, will restructure the economy in such a fashion as to boost exports sufficiently to remove the current account restraint.

Nor is this merely a question of theoretical nicety. The case for an activist industrial policy in Australia today depends precisely upon this assumption that the market does not spontaneously restructure economies like ours onto economically sustainable paths. But this assumption comes at a cost—the cost of taking the dissident theory seriously, and following its logic even when it happens to be inconvenient to the political preferences of leftish-minded people generally.

(iii) ‘N+1’
A senior Labor parliamentarian has a joke about the Left he terms ‘n+1’. The expression refers to the self-created role of the Left as the big spenders in the decision-making processes of Labor governments. The joke runs like this. When the government draws up a major policy initiative such as the One Nation statement, the Left gathers in a huddle (or two) and decides on a collective policy position (or positions). The preference on Cabinet’s part is that the initiative should involve the spending of $n million. The Left decides unfailingly that the government ought to spend $n+1 million. Cabinet spending of $n million. The Left decides unfailingly that the government ought to spend $n+1 million. Cabinet ‘takes the Left’s views into consideration’, and emerges with the original figure of $n million.

Of course, it’s not really a joke; it’s too close to the bone to the role the Left often plays in policy debates. Rather than having a clear, coherent strategy and making that the basis for its policy positions, the Left takes on the persona of kind-hearted aunt and proposes simply to offer more, to spend more, to demand more.

In the case of the One Nation statement, the position adopted by the more thoughtful figures on the Left was that ‘there is more room to move than the orthodoxy allows’, as a rationale for arguing for a much larger injection of public funds into the economy. It’s difficult to avoid the suspicion that this was just a more polite version of ‘n+1’. The extent and nature of the external constraint on growth in Australia is such that any source of growth can be a problem. To argue that ‘there is more room to move than the orthodoxy allows’ is to hint at some more detailed analysis of what the effects of addi-
We argued above that economic and political dissenters need to take the propositions of their economic theory seriously. Part of the ‘n+1’ problem is that the ‘dissenting academy’ chooses to subscribe only to a conveniently truncated version of this theory. According to this point of view, Keynesianism is concerned with the need for higher levels of public spending in general, and a larger public sector in particular. It thus makes ‘economic sense’ to always simply argue for more—for ‘n+1’.

But the political significance of Keynes’ economics in fact has little to do with this. Keynes was concerned primarily with the level and composition of effective demand—in other words, with the various components of economic growth. In itself, this has nothing to do with the size of government or the level of government expenditure. This suggests that in the light of the external constraint thoughtful economic dissenters should focus more on the allocation of public sector expenditure rather than stressing the need for greater public expenditure for its own sake, and be less concerned with the level of economic growth in itself than with the question of its composition. In short, that thoughtful dissenters should be less concerned with advocating ‘more of everything’ than with how to generate the conditions to sustain the levels of expenditure they might prefer.

(iv) Consequences
All of this may make some readers feel gloomy, or even irritated. After all, isn’t this just an argument for acquiescing in the status quo? Where’s the radicalism, the fire in the belly? And there’s no doubt that austerity is an irritation. After all, isn’t this just an argument for acquiescence to the external constraint, not a solution. However, it’s no good arguing that we should ignore the real objective constraints of the situation because they lead to consequences which are unpalatable. The ‘dissenting academy’ has nothing to fear from, to borrow a phrase, a ‘will to truth’; rather, wilful self-deception is, as so often, its greatest temptation and danger.

However, the fact that there is a logic to the politics of austerity doesn’t mean that there’s nothing to be done but accept the status quo. In the short term, it’s an argument for insisting that public expenditure restraint be shared more equitably than it is at present—an argument which, if followed conscientiously enough, might lead the Left into some unpopular postures on tertiary education funding and telecommunications, for instance.

In the medium term, the arguments advanced here provide a compelling logic for a more activist industrial policy in order to restructure the Australian economy along a more sustainable path. However, such an industrial policy would need to be based on a wider analysis of the structure of the economy and the possible sources of economic success—the sort of sectoral analysis which it’s rumoured John Dawkins wants to impose on a presumably reluctant Industry Commission. And specific industry proposals will have to be justifiable within such an analysis, not just as items on a shopping-list; after all, industry policy itself will have adverse effects on the current account, to the extent that it stimulates domestic demand.

Finally, in the longer term (and as Tony Aspromourgos argues in the article cited above), these arguments suggest the need for international alliances with like-minded countries in the region and elsewhere, to try to co-ordinate macroeconomic policy and policies of structural adjustment. For the current account problems we face are ultimately international problems which, within a far more integrated world economy than in the past, will become the sine qua non of progressive advance.

These are unpopular arguments to mount at a moment like this. Paul Keating is trying to sidetrack concerns with the economic constraint in his all-out drive to keep the Coalition from office late this year or early next year. In the process he may make a few more spending promises in the August Budget, to try to raise consumer confidence further prior to the poll. That is politically understandable. At the same time, there is a strong urge in Left-of-centre politics to be rid of the language of austerity which bedevilled the late 1980s, and to dismiss all arguments for austerity as the ravings of ‘economic rationalists’. That is less understandable, and somewhat ineffectual. After the 1992/93 election, however, we may rest assured that the language of austerity will return, and that Paul Keating’s brand new day will begin to seem rather like yesterday (except, maybe, rather stormier). It would be as well that political dissenters were prepared for this eventuality, and understood the economic processes that underlie it, rather than succumbing to the fashionable comforting myths.

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2. The basis for this economic corpus, for those readers interested in such things, being the Keynesian theory of effective demand and the classical theory of distribution, as reformulated in Piero Sraffa’s *Production of Commodities by means of Commodities* (1960).
3. In fact, one such analysis was prepared at the University of Newcastle by Roy Green, Bill Mitchell and Martin Watts: see ‘Too Little too Late?’ *ALR* 138, March.