

# ALR

## MARGINS

### *That Was It?*

Even before the Prime Minister rose in parliament on 12 March to deliver the government's *Economic Statement*, most interested observers expected it to be disappointing. In that respect at least, most of them would not have been disappointed.

This is not only because key aspects had been well and truly leaked, or prefigured, but also because, in the main, the various interest groups received gain and pain—'sweet and sour', Martin Ferguson called it—which tended to make for mixed reactions. The most striking exceptions to this are the textile, clothing and footwear (TCF) industries (accelerated reductions in protection); the automobile industry (the same but to a lesser extent); and the environmental movement (resources guarantees for the forest industry).

The premise of the statement is a now familiar proposition with which almost everyone would agree—that the necessary stabilisation of our foreign liabilities and the current account requires a persistent trade surplus and hence national production persistently in excess of domestic expenditure. The route to this goal, given Australia's reduced capacity to rely on traditional primary commodity exports, is supposed to be greater competitiveness—a more contentious proposition, if not actually a tautology.

In the statement all this, as well as the policy detail, was laced with the usual clichés ('living beyond our means', the 'clever country', 'working smarter', and so on). This

familiar tone extended to the content of the statement. A good part of it is a mere reiteration of the government's supposed commitment to 'microeconomic reform' in areas such as ports, shipping, telecommunications, road/rail transport and other public trading enterprises. This made it glaringly obvious that there were no new initiatives on offer in this area. No doubt, though, it would have been even more obvious if nothing had been said at all.

The specific policies announced were a miscellany adding up to a shopping list rather than a coherent policy. This is much what might have been expected from a 'program' which emerged as a result of the prime minister taking over the statement some months ago and making himself the conduit for his ministers' initiatives. The result could hardly have been other than piecemeal. This points to the central weakness of the package. In attempting to bring together a program of microeconomic and structural policies the Labor government has revealed in a striking way its lack of an overall strategy for effective structural adjustment and diversification in the export and import-competing sector.

Furthermore, despite much comment in recent months that an interventionist sentiment was taking hold in Cabinet, and was challenging the intellectual and ideological dominance of the Treasurer (or is it the Treasury?), there is little evidence in the statement that this (assuming it were true) has had any significant and systematic effect. Indeed, the statement is a reconfirmation of the government's fundamental commitment to the conventional market model of economic organisation and adjustment. If there is an overall strategy, this is it.

As a result, in industry policy the differences between the Labor government and its conservative opponents can be reduced to: (1) the pace of adjustment; and (2) some commitment to limited interventions in the areas of retrenchment safety nets, education and training, research and development, and so on. In particular, there is now and for the foreseeable future a bipartisan policy in Australia in favour of substantially reducing tariffs and other protective devices—and this evidently extends

beyond the political parties to large sections of the union movement and most employer organisations.

Reduction in protection may well be a good thing; but if the premise of the market model—that displaced resources will be rechannelled to more effective uses—proves faulty, then tariff reduction will not be a substitute for structural adjustment policy. Furthermore, there is a strange asymmetry between guaranteeing 'resource security' for the forest industry and changing the rules for the car plan and the TCF industry plan; the latter is hardly a recipe for industry 'security'. But perhaps the entrepreneurs of the forest industry are of particularly delicate sensibilities.

The tax reforms are sensible enough—though the extension of sales tax exemptions for industry is little more than a minor cleanup around the edges of the wholesale sales tax. The conservatives and many commentators have responded by arguing that a broad-based consumption tax is the ultimate solution. They are right; but this should be aimed at abolishing the federal wholesale sales tax and state payroll taxes, not reducing income tax. Such a scheme would also fit neatly with Mr Hawke's efforts towards a new federal-state compact.

Will the strategy succeed in pursuing the fundamental goals stated above? In a nutshell, two things are required simultaneously. In order to achieve employment growth in the neighbourhood of workforce growth—and hence full employment—real output growth of about 3.5% is required. In order to stabilise the current account, a trade surplus of about 2% of GDP is required.

This is a big task, and the course the government has been, and is still, pursuing is not likely to achieve it. Market forces might conceivably do the job in a large, diversified economy with less deep-seated current account problems. However, the structural weaknesses of Australia's economy are just too profound to entertain that hope.

TONY ASPROMOURGOS teaches in economics at Sydney University, and is visiting fellow in economics at the University of NSW.