In the aftermath of the economic liberal ascendancy, there is a policy vacuum in Canberra. JOHN LANGMORE argues we need a National Commission of Inquiry into the economy to define the new principles and priorities of the 90s.

Australia is at a watershed. We have two intractable economic problems which the policies of the 80s have failed to resolve—high unemployment and a high current account deficit.

As well, the policies of the 80s have increased inequity through the growth of high incomes and of the wealth and power of a relatively small proportion of the population. The quality and accessibility of community services have been reduced by cuts in government spending. And a serious aftermath of the excesses of private entrepreneurs during the 80s has been a loss of confidence in the probity, ethics and judgment of the Australian business community both here and internationally.

Yet there were also demonstrable benefits from the policies of the 80s which now provide a firm basis for refocused economic strategy. First, Australia's inflation rate of 0.7% is both the lowest in the OECD area—a fact which is not recognised by most economic analysts. Fig. 1 (provided by the Treasurer) shows general government gross debt...
(i.e. in the case of Australia, including not only commonwealth but also state and local government debt but excluding that of statutory authorities) as a proportion of gross domestic product in 1991. Australians often confuse overseas debt—which was worryingly high in the third quarter of 1992 at $163bn—with government debt, which is very low.

Second, a modest economic recovery is under way here. Australia is expected to grow faster than all but a couple of small OECD countries during 1993. This means that Paul Keating's One Nation strategy was well-targeted and that the moderate fiscal stimulus, lower interest rates and our strengthening trade links with rapidly growing East Asia are encouraging economic development. The growth in the real value of Australia's manufactured exports of 15% a year since the mid-80s is an impressive result of Australia's strengthening ties with the ASEAN countries, Korea and Taiwan.

Fortunately, the type of expansionary policies adopted in One Nation are also being introduced overseas, notably in the US and Japan. Another aspect of the international situation which is conducive to economic recovery is that, with the ending of the Cold War, wasteful military spending in North America and Europe is steadily being redirected towards more valuable economic and social programs—a trend which Australia could well emulate.

Other achievements during the last decade have included the remarkable growth in public sector productivity of over 4% a year, the efficiency of the social security system in targeting deprivation (albeit in a rather mean-spirited way); and the exploding interest in education and training in schools, TAFEs and universities. These achievements are in part the obverse side of the problems. The economic fundamentalists who advise government have been more preoccupied with reducing inflation than unemployment and improving efficiency rather than equity.

While studying economics and social work at Melbourne University in 1960 I was placed as a part-time social work trainee in the Brotherhood of St Lawrence. My first client was a young man who came in with his wife and baby. He was unemployed because of the credit squeeze which the Menzies government had introduced to control inflation. He had to wait two more weeks for his unemployment benefit, had no savings and needed cash and food desperately. Fortunately, the Brotherhood could help him.

I gradually and reluctantly realised this family's suffering was the direct result of deliberate government policy. It seemed incredible that ministers and their advisers were responsible for policies which were undermining this family's dignity, as well as their income. This realisation led me naturally to an intensified interest in economics. What had previously seemed a dry theoretical subject now had a human dimension. I learned also that economics is value-laden: that every economist makes choices about the ranking of goals and priorities. Economists (of whom I am one) consciously or unconsciously inject values into analysis and policy prescription. All economics is political economy (in the 19th century sense).

For example, many economists perceive a trade-off between inflation and unemployment. Although both are regarded as problems, many economists would argue that achieving and maintaining low inflation should have priority. A low inflation rate is certainly desirable, for it increases Australia's international competitiveness and improves economic security. Yet moderate inflation and unemployment are hardly equivalent evils. Inflation is only about the value of money. Unemployment marginalises and stigmatises people, destroying their economic security and their self-respect.

Many economists solemnly talked during the 1980s about the "natural rate of unemployment", "one of the most vicious euphemisms ever coined" as William Vickrey, past president of the American Economic Association, wrote recently. Our own Treasury has used the inhuman term "over-full employment"—meaning that while there was still unemployment inflationary pressure was increasing. Such word games demonstrate the dehumanisation of much economic analysis.

The way out of this policy dilemma is to emphasise the twin goals of reducing both unemployment and inflation. It isn't beyond the wit of competent economists to design policies which simultaneously increase employment and reduce inflation. That is the main goal of the Accord, which has contributed directly and effectively to achieving both goals. Yet 'economic rationalists' remain opposed to or sceptical about incomes policy, despite the clear evidence of its success until 1989, when the benefits were overwhelmed by the misjudged contractionary monetary, budgetary and deregulatory policies of 'economic rationalists'.

The deification of efficiency and the devaluing of effectiveness, equity, and accessibility, have become the hallmark of the economic rationalist

| General government debt as a percentage of GDP. percent |
|-----------------|-----------|
| Australia       | 15.6      |
| Britain         | 36.7      |
| Germany         | 43.9      |
| Sweden          | 44.8      |
| United States   | 58.5      |
| Japan           | 63.4      |
| Canada          | 75.7      |
| Netherlands     | 79.8      |
| Italy           | 103.8     |
| Belgium         | 131.5     |
The time has come to stop aiming for tax cuts as the principal goal of fiscal policy.

Nobody wants to pay taxes. We would all like to have complete control of our income. However, all of us also want national security and safe neighbourhoods, high standards of education and health services, efficient and safe roads and public transport, conservation of substantial representative portions of the natural environment and opportunities for social and cultural enrichment. Yet the quality and extent of those services cannot be maintained if their funding is being continually reduced.

Of course there is scope for improving the efficiency and effectiveness of service delivery. Pressure to maintain the efficiency and effectiveness of service delivery is a perpetual task of good government. Of course, priorities can be changed and cuts made in some areas to allow for increases in other ways. But improving efficiency and changing priorities will not ensure that all community programs are sufficiently funded to meet justifiable demands if total outlays are continually being reduced.

Given these justifiable needs for community services, it is a higher priority to improve services than to reduce taxation. The time has come to stop aiming for tax cuts as the principal goal of fiscal policy and to replace them with a broader view of the role of public services in constructive, equitable, fulfilling and enlivening personal and community life.

This requires both a clearer view of and stronger commitment to national goals and more pragmatism about the means of achieving them. The goal of full employment must be reasserted, without neglecting the spectre of inflation. Equity must be re-emphasised, without forgetting efficiency. Environmental conservation must be sought at the same time as economic development.

A better balance is required in the use of means as well of ends. For the 40 years from the late 1940s to 1989 the world was dominated by military and economic competition between capitalism and communism. One effect of this was to encourage extreme assertions about the benefits of the market. With the end of that competition of 'systems' it should be possible to take a more realistic view of economic processes in mature mixed economies. Such a view would recognise both the necessity of markets in all phases of production and distribution, and also the frequency of market failure, and the consequent need of government intervention to improve both efficiency and equity.

Australia's circumstances require that economic policy be refocused. There is a widespread hunger for a balanced approach which would offer realistic hope of growth of employment and equity, as well as of lower inflation and improving efficiency. Provided government is firmly committed to these complex goals and prepared to seek policies which could include more active intervention, there would be great value in a National Commission of Inquiry into the economy.

The outcome of such an inquiry could well be a statement akin to the 1945 White Paper on full employment, as Bernie Fraser has suggested, but the process of preparation would be vital to the effectiveness of the outcome. An internal public service review would be inadequate, because much the same people who advised on the policies of the 80s would prepare the papers. The Vernon Committee or the Coombs Royal Commission would be much better models because they involved Commissioners with a range of experience. This is a somewhat different approach to that envisaged by Bernie Fraser, though the rationale is similar.

A five-person Commission would be appropriate. Just to give a flavour of the type of inquiry I have in mind here, it is worth mentioning a few names. Stuart Harris would be a suitable chair. He is widely respected because of his experience as Secretary of Foreign Affairs and Trade, as well as for the quality of his extensive scholarly publications and his intimate knowledge of both trade and environmentally sustainable development issues. Bob Gregory would be an ideal member. He is highly regarded for his thoughtfulness, the quality of his empirical research and the breadth of his experience, including membership of the Board of the Reserve Bank. John Prescott, Managing Director of BHP, has demonstrated both outstanding corporate achievement and a wide-ranging concern about wider economic issues. Meredith Edwards is an outstanding economist with a sophisticated knowledge of many areas of community services: at present she is directing the national housing strategy. Hugh Stretton has been the most effective advocate of a balanced approach to economic policy.

Such an inquiry could be announced for the forthcoming election policy speech and established immediately after the election. The Commission could be given a year to report and the support of a secretariat of about 20 professional staff. The terms of reference for the Commission should begin with the government's commitment to full employment and lower inflation and to improving equity and efficiency, and should include references to each of
the areas of policy and practice which make an impact on economic activity and employment: fiscal, monetary and incomes policy, the international economy, industry policy, education, training and immigration, industry structure, work and employment practices, labour market programs, income support and so on.

Inquiries are often received with cynicism, with many people responding that "the government is only deferring the problems". The point is, however, that there are no for resolving our intractable economic difficulties. Hundreds of new minor and major policy and program initiatives and changes in business and union practice are required. Both new processes for policy formation and new approaches are necessary. In this situation a broadly-based inquiry, drawing on the most rigorous intellectual analysis and empirical research by able people committed to the goals of full employment and lower inflation, and to improving equity as well as efficiency could make a major contribution to effectively redirecting Australian economic strategy.

Of course the government should not wait until the report of this Commission is received before taking new initiatives. Fresh additional policies are required immediately. To conclude, it is worth suggesting a few.

In October 1991 I tabled a parliamentary report on Australian Current Account Deficit and Overseas Debt, and last year I released a report of an employment task force entitled Maximising Employment. Some of the proposals in those reports have already been implemented, including some fiscal stimulus, a new job creation scheme operating on local infrastructure, a fall in interest rates and the exchange rate and expansion of targeted training programs for young people. Other proposals are still relevant.

There is scope for further expansion of public outlays targeted in ways which would increase national productivity, output and exports. These include areas such as infrastructure, education and training, research and development, structural adjustment and international marketing assistance. Further increases in funding for institutes of technology, universities and schools, for railways, roads and ports, as well as for hospitals and public housing would serve the double purpose of improving the efficiency of the national infrastructure and of skills and human well-being, as well as stimulating economic activity. Income restraint should be maintained and extended to non-wage incomes through implementation of a strengthened competition policy and by using progressive tax policies. An active sector-based industry policy should be developed to promote exports and import replacement, with emphasis on regional user-producer links. Opportunities for part-time work should be increased so as to redistribute employment more widely. Elimination of poverty traps (some of which impose marginal tax rates of over 100% on the poorest people) should have a high priority, through, for example, increasing income thresholds. Benefits should also be increased as far as practicable within budgetary restraints.

A fresh wave of private investment would be encouraged by a major increase in the accelerated depreciation allowance for a limited period—allowing write-off of investment on plant and equipment in perhaps three years, provided the funds were spent by, say, mid-1995. This would encourage firms to bring investment forward in the confidence that others would do so too.

There are innumerable opportunities for larger and smaller environmental projects, some examples of which were announced in Paul Keating's Environment statement in December. These include projects to improve water quality, recycle waste, protect the natural environment, substantially increase the national nature conservation reserve system and to facilitate community access to reserve areas. All of these projects would also increase employment.

In order to help counteract the property recession, the government could purchase more office accommodation. The proportion of offices occupied by the Commonwealth which they also own is now at a low level (around a third), and far below that in comparable countries. This means that the Commonwealth's rent bill is now very large and is probably approaching that of the level of interest on Commonwealth debt. The solution is to increase the proportion of office accommodation required by the Commonwealth which it also owns. Office construction and occupancy is one of the most depressed areas of activity and so the value of buildings has fallen sharply. Such a program would be favourably received by the business community, and future governments would bless this government's foresight in acquiring appreciating assets and reducing leasing costs.

Finally, we should consider replacing the payroll tax with taxes on carbon emission. This change could be made in a revenue-neutral way and would clearly have the benefit of removing a discouragement in growth of employment, while at the same time discouraging emission of greenhouse gases.

To summarise, the central requirements for addressing unemployment and the current account deficit are a more balanced approach to both ends and means. This would allow a more active role for the government, free of the artificial ideological constraints of the 80s. Our society will be more secure and attractive if it is also more equitable and humane, as well as more productive and efficient.

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