Last week the Australian Bureau of Statistics released figures showing new private capital expenditure rose 6.3 per cent in the March quarter.

Treasurer Josh Frydenberg told parliament, “Manufacturing investments had the biggest jump for 16 years. This is the product of our policies.”

Well, yes. There are lies, damned lies and statistics. If the increase in manufacturing investment was to be welcomed, it also has to be recognised as a cherry on a paper maché ice
cream. In aggregate terms, the value of new private investment in the March quarter 2021 was just one per cent above that of a year earlier. And, though the December 2020 to March 2021 quarter-on-quarter 6.3 per cent increase could be described as an annualised rate of 25 per cent, doubtless Treasury realised that such a number is unsustainable and offering it presented far too great a hostage to fortune.

Aside from populist pre-election appeals, the government is gambling that its recent spendthrift budget with its deficit at 7.8 per cent of GDP will reinvigorate the economy. The government’s hope is that outlays from unearned income will trick businesses into thinking that a surge in real spending is underway and that they will respond with the investment that would underpin such increased activity. Embroidering the latest numbers is part of the promotional spin.

However, deficit spending policies have never worked in the past other than on a transitory basis. And we have a seemingly unsurmountable peak to climb before it is possible to see investment, the engine of economic growth, restored to its levels of a few years ago. The chart below illustrates an erosion in real private investment over the past decade that the Treasure failed to mention.
Moreover, this picture is a flattering one as it does not take into consideration increases in population. As a share of GDP private and public non-housing investment is presently barely above 10 per cent compared to previous highs and lows of 25 per cent and 15 per cent respectively.

Australia’s tragedy is compounded by the fact that the opposition would go even further in wasteful spending. Our elected politicians, in a triumph of hope over experience, proclaim that such policies will magically lift the economy.

But fiscal indiscipline combined with the many crippling government interventions, especially in energy and irrigation policy, means the best we can hope for is a gentle decline in living standards.
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