Deficit failures condemn us to sluggish growth

Economics & Deregulation | Alan Moran Bookmark
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The Federal Government is keen to triumphantly declare that it has conquered the recession.

Germany and France -- but not other European Union countries -- recorded positive economic growth in the June quarter.

That quarter also saw hopeful recovery signs in Japan, while US national income fell less than expected.

The Commonwealth Treasury and Reserve Bank are hedging their bets in announcing a recovery.

Reserve Bank governor Glenn Stevens is nonetheless preparing the public for reversing last year's interest rate cuts.

Perhaps chastened by failing to anticipate the world financial crisis, Treasury secretary Ken Henry has admitted puzzlement about why Australia has fared relatively well. He notes that unemployment has remained low and that our retail sales growth over the past year and a half was in contrast to falls of 4-8 per cent in Europe and the US.

While maintaining that cash handouts, bank guarantees and slashed interest rates cushioned the recession's effects on Australia, Mr Henry is aware that such measures still left the UK and US economically distressed.

Moreover, France and Germany are apparently recovering without much in the way of government stimulus.

Australia's measures included $10 billion in handouts late last year and $42 billion of ``infrastructure" spending. But the infrastructure spending has done little to promote income growth.

What we got was Pink Batts and unnecessary school buildings with plaques to promote Education Minister Julia Gillard's benevolence with taxpayers funds.

A key reason why the recession has been kinder to Australia than to any other developed economy is our economy's greater flexibility stemming from policies of successive governments since the later 1980s.

Labour relations reforms are the standout. Last year days lost through strikes were only 2 per cent of their levels 20 years ago.

These reforms were also crucial to Australia's ability to supply the China boom.

Canberra may be undermining these strengths. The new "fair work" laws will increase labour costs. They also give unions the right to demand to represent workers and to run spurious safety campaigns. In the past, these have paralysed many worksites.

Government spending splurges and very low interest rates have boosted demand, but these measures cannot continue indefinitely.

The Government says it will reverse its unsustainably high spending levels, ``once economic growth is above trend -- allowing tax receipts to recover naturally as the economy improves".

This presents a problem if, instead, we see a flat economy.

And such an outcome is probable partly because the government handouts have been at the expense of savings. Transferring these savings into consumption reduces investment and future productivity growth.

Government climate change policy is also likely to divert investment activity into unproductive wind farms and discourage investment in electricity-intensive industries.

At best, Australia can expect a weak recovery then sluggish economic growth because of the government failure to rein in budget deficits.

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