Stimulus over, time for Rudd to rein in spending

Economics & Deregulation | Alan Moran

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The global financial crisis left vast holes in the world's major advanced economies. The US, Japan and European Union all ended 2009 with their national income levels 2.5 to 5.5 per cent lower than in 2007.

For the first time in more than a year, the recent September quarter saw the world's major economies record positive growth.

However, with unemployment above 10 per cent in the EU and US and expected to continue increasing for another year, there are no voices suggesting a roaring recovery.

Australia is a stand-out within the developed world. We ended 2009 with our national income more than 3 per cent higher than in 2007.

Modest further growth is forecast, though not enough to stop unemployment rising.

But why have we fared so relatively well?

Notwithstanding Prime Minister Kevin Rudd's self congratulations, it cannot be due to the Federal Government's massive fiscal stimulus.

The US, Japan and Britain all introduced similar measures and still experienced recession.

Like all other governments that pump-primed their economies to counteract the downturn, Canberra must now rein in the spending -- a task made even more difficult by its insisting upon introducing the ETS tax and spend program.

One obvious reason for Australia's relatively good performance is China.

China is now our biggest export market and its growth has remained at an effervescent 8-9 per cent over the past two years.

The Hawke-Keating-Howard reforms were vitally important in creating a more flexible Australian economy and allowing the China opportunity to be taken up.

Those reforms included deregulation of labour markets and of business investment decisions.

Unfortunately, the Rudd Government is steadily dismantling this growth platform.

One outcome of the present Government's increased regulatory intrusion is seen in Telstra's inability to proceed with a planned $500 million bond issue to finance investment.

Senator Stephen Conroy has impaired Telstra's credit rating by creating uncertainty in his ego-driven determination to bring the company to heel and split it up.

His reign as Communications Minister shows that the tricks learned kicking your way to the top in the Victorian ALP can cause considerable harm and costs when applied to the art of government.

Government anti-business measures that raise investment costs have added to longer-standing problems with regard to the savings that supply investment funds.

In normal years, non-dwelling investment in Australia is equivalent to 20 per cent of national income. But for a long time now, over a quarter of our investment has been provided by overseas funds.

This is a large dependence on foreign savings for a country as wealthy as Australia with an ageing population.

Not only must foreign investment be serviced with interest and dividends but its flipside -- an under-saving by Australians -- has significant repercussions.

The long-standing inadequate levels of savings by baby boomers must translate into either them facing lower future living standards as retirees or higher taxation levels for their children and grandchildren.

Already we are seeing one outcome in old age poverty. Compared with the developed world as a whole, Australia has twice as many people over 65 years living on half of the average income levels.

While Mr Rudd's various stimulus packages may have boosted immediate consumption levels, they have done so by further raiding the pool of domestic savings.

That is storing up additional problems for the future.

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