

Every glimmer of economic hope has a sting in its tail

[Economics & Deregulation](#) | [Alan Moran](#)
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After six years of economic misery in the developed world everyone is desperate for growth to resume.

Every sliver of good news is greeted as a hopeful sign, only to be dashed by other indicators offering contrasting evidence.

For example, this week saw a welcome increase in US employment but this was followed by stories that France and Italy are shedding jobs and seeing their economies shrinking further.

Then we are presented with upbeat evidence from the UK, followed by data about falling German exports. And even the good news contains barbs.

Thus, in the US, where the economy has the benefit of highly flexible wages, little union power and a bonanza in shale oil developments, this year's projected growth turns out to be a mere 2 per cent.

And this is underpinned by unsustainably low interest rates.

Moreover, although US employment appears to have increased over the past two years, it remains below the levels of five years ago in spite of an increase in the workforce.

And, as in Australia, the US has seen a fall - 10 per cent in Australia's case - in hours worked per employee.

The UK forecast growth in 2013 is actually a minuscule 1 per cent and it is accompanied by an anticipated decline in private investment, the all-important support for lasting growth.

Weak private investment is the most worrying feature of the current recession.

Investment in Europe, the US and Japan is low and, as a share of national income, remains well below pre-2006 levels.

These major developed countries have seen negligible economic growth with living standards now lower than prior to the recession.

The contrast could not be greater between these established economies and China, India and the Newly Industrialised Countries (NICs) of Korea, Taiwan, Singapore and Hong Kong.

Government social spending is prominent in the sluggish economies of Europe, the US and Japan, where it accounts for 38 to 50 per cent of national income (36 per cent in Australia).

Developing Asia has avoided this - governments account for 21 per cent of national income in China and the NICs, and 28 per cent in India.

As a result of their more responsible levels of government spending and supportive regulatory frameworks, the developing Asian economies have shown considerable growth throughout the recession.

Driven by an investment surge, China and India are now more than 50 per cent richer than they were in 2006, and the NICs more than 20 per cent richer.

As a supplier of energy and raw materials, Australia has enjoyed comfortable growth on the back of Asia's booming demand.

Had it not been for Government-imposed taxes on energy and mining, mounting regulatory impediments to development and the creation of union-inspired labour inflexibilities, we would have done even better.

But more difficult times are ahead as indicated by the downbeat findings of business surveys issued by the ACCI and the NAB this week.

Unfortunately, the Government's response has been to legislate for increased social spending on education and the disabled, and to provide greater powers to unions and union-dominated industrial tribunals.

This policy direction is especially ill-advised in the face of the more troubling economic conditions we confront.

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- > [August](#)
- > [July](#)
- > [June](#)
- > [May](#)
- > [April](#)
- > [March](#)
- > [February](#)
- > [January](#)

[2013](#)

- > [December](#)
- > [November](#)
- > [October](#)
- > [September](#)
- > [August](#)
- > [July](#)
- > [June](#)
- > [May](#)
- > [April](#)
- > [March](#)
- > [February](#)
- > [January](#)

[2012](#)

- > [December](#)
- > [November](#)

- > [October](#)
- > [September](#)
- > [August](#)
- > [July](#)
- > [June](#)
- > [May](#)
- > [April](#)
- > [March](#)
- > [February](#)
- > [January](#)

- [2011](#)
- [2010](#)
- [2009](#)
- [2008](#)
- [2007](#)
- [2006](#)
- [2005](#)
- [2004](#)
- [2003](#)
- [2002](#)
- [2001](#)
- [2000](#)
- [1999](#)
- [1998](#)
- [1997](#)
- [1996](#)

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- [About](#)
- [Key Sectors](#)
- [News](#)
- [Events](#)
- [Publications](#)
- [IPA People](#)
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