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Whitlam redux

Henry Ergas | December 18, 2008

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ANOTHER day, another stimulus package. Who cares if the package du jour's main course, the nation-building projects, are merely commitments made by the previous government, frozen by this Government, and now hastily defrosted for the occasion? As Bob Geldof said about world poverty, "Something must be done, anything ... whether it works or not."

Shades of Gough? Perhaps. But if the Whitlam government was opera, this is soap opera: grandeur gone, soaring rhetoric replaced by a thicket of half-baked cliches and bureaucratic prose, all the character development of a high school musical.

The Whitlamesque ambition, however, remains intact.

Super-ego on wings to a planet in distress, Kevin Rudd is everywhere, saving the Doha Round one moment, averting catastrophic climate change the next, and all the while corralling a reluctant G20 to banish from the temple the merchants of "extreme capitalism". The activism has been even more pronounced on the home front, as the war on inflation mutates into a war on the financial crisis, only to be followed by a war on unemployment. Wars without end: but where is the strategy? If there is an economic strategy, it is cleverly hidden. Of course the Government wants to avert recession. But "spend, spend, spend" is hardly a sensible approach to economic management.

It is true that globally, Keynesianism is back, albeit in exceptionally crude form. Indeed, few assets have known booms and busts in their market valuation quite as spectacular as those affecting the intellectual legacy of John Maynard Keynes, and not without reason. For Keynesian policies are drugs that may do good (though even that is arguable, especially in an open economy) but are difficult to control, readily habit-forming and, when abused, extraordinarily destructive.

Their use consequently requires the greatest discipline and sense of caution. But bringing those to bear is no easy task, because the fog of war, in which decisions are taken in ignorance of effects, is no less treacherous in economic policy than on the battlefield. It is therefore fair to question the Government's headlong rush into deficit while the economy is still growing, even if at a significantly slower rate, and before it can judge what has come of its first round of handouts. Deficits should not be demonised; but, ultimately, all spending must be paid for, so today's unfunded outlays are tomorrow's distorting taxes.

Moreover, if the spending is wasteful, like the car plan or the so-called solar revolution, the generations on whom that burden is shifted will be doubly poorer, paying higher taxes from a base of reduced wealth.

Seen in that light, the pace and scale of the change in the Government's fiscal stance seem extraordinary, especially when one considers the strident "beat inflation first" rhetoric of only a few months ago.

The Government's response is that circumstances have changed in ways no one could have predicted. But when Peter Costello, in the midst of the election campaign, warned of a tsunami that would hit the Australian economy, Wayne Swan and Kevin Rudd led the chorus in howls of derision. And when, several months later, Malcolm Turnbull stressed the dangers of financial crisis, he too was derided by a Government as smug as it was poorly advised. If the Government was caught unaware, it can hardly have been listening.

This is not to deny the speed and severity of the deterioration in economic circumstances, which clearly demands a policy response. But that is no excuse for abandoning the middle ground in a dash to action fraught with risks and riddled with inconsistencies.

How can it make sense, for example, to reduce labour market flexibility just as the economy heads into recession? And having increased the effective cost of labour, is it wise to then subsidise investment, further distorting relative factor prices and accentuating the substitution of capital for labour, exactly as happened with the investment subsidies many European governments provided in the late 1970s and

early '80s?

As for the emissions trading scheme, if the main emitters are not reducing their emissions -- as the Government's 5 per cent target assumes -- why go it alone? Far from serious reform, is this not merely costly symbolism, with the pain disguised by subsidies thrown at each possibly affected group, entrenching the fantasy that no matter what harm it does to the economy, government can ensure no one is worse off? "Every man a winner": speak of fiscal illusion.

Nor is the Government's penchant for nation-building any better thought out. Now in tatters with the Telstra fiasco, the scheme is based on the false premise that vast new projects are what this country needs. But whatever Australian politicians lack, ribbon-cutting opportunities are not among them. Rather, our infrastructure suffers from the fact that having willed the ends, we persistently misuse the means, including by sacrificing maintenance for ambitious, poorly judged but electorally popular new projects.

Consider Victoria, which proclaims its aspiration to be a paragon of good government. Between 1998-99 and 2007-08, there was a 22 per cent increase in the number of road structures in regional Victoria and a significant increase in road kilometres. However, maintenance outlays fell ever further below the levels required to keep the road network in safe, sustainable shape.

As for NSW, the latest comprehensive review found that despite a string of big new projects, ride quality on Sydney roads has been falling and accumulated road damage is worse than it was 10 years ago.

We have, in other words, transferred a growing maintenance deficit and attendant tax burden to the future. But far from addressing the systemic failures in state governments this reflects, the new Building Australia Fund seems set to throw yet more money at symbolic projects, impoverishing our children and grandchildren.

Are these just teething errors? Or is it that the Government's frenetic activity masks a lack of serious thought and of guiding principles -- ultimately, of wisdom -- that could help it deal coherently with a situation that every day becomes more difficult and threatening?

If that is the problem, as seems plausible, no number of all-nighters can fix it. Rather, they only make bungles more likely, as sheer exasperation and angry obstinacy cloud judgment and undermine the careful consideration of options and consequences. Government by exhaustion is, in historian Keith Hancock's famous phrase, a recipe for policies that yield diminishing and then negative returns, as decisions taken in a state of prostration become a positive danger to the purposes that called them into existence.

Staring at the wreckage of the Bruce and Scullin governments as they ineptly struggled with progressively harsher economic times, politician and diplomat F.W. Eggleston wrote that he wished for a PM who occasionally "has the courage to do nothing". As we move into 2009, it is not inaction that is called for, but action that is properly considered, based on guiding principles, by a Government willing, for once, not to tick the box of each interest group but to count the costs, refuse the favours and set limits on the policies that have been launched. No matter how worthy the ambition, the alternative is ultimate disappointment, with unending grief along the way.

Henry Ergas is chairman of Concept Economics.

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