

Economic blueprint, but will Hockey read it?

November 19, 2013

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Tim Colebatch is The Age's economic editor.

The Coalition should read Ross Garnaut's new book on our economic recovery.

With disarming frankness, Joe Hockey has drawn a line in the sand: he says he wants to ensure that Australia's record 22 years of growth does not end on his watch. But with a record mining boom set to contract sharply, that could be hard.

It could also be easy. If China remains on its growth path, if the Republican moderates in Congress overpower the Tea Party zealots to keep the US growing, if Europe continues its gradual recovery, then 2014 and 2015 could see the world economy regain stability, confidence and pace. But as we all know, a world recovery is easier to envisage than to realise. There's a lot of moving parts, a lot of potential for things to go wrong. And as Ross Garnaut points out, some big forces will hold Australia back.

After all the unhelpful advice to Hockey - such as last week's self-indulgent speech by the chairman of his Business Advisory Council, Maurice Newman - Garnaut's new book, *Dog Days: Australia After the Boom*, is full of good sense, subtle insight and discriminating courage from one who knows from the inside what it's like for governments facing difficult decisions. I don't agree with all his arguments, and Hockey and his colleagues won't either. But I would urge them to read this book closely, and think hard about its proposals for meeting the challenges that are likely to dominate their term in government.

The Howard government fell because, in the end, it listened only to advice from Liberal loyalists, and ignored those concerned for the wider public interest. The Abbott government should learn from that mistake. It should welcome advice from eminent experts with the public interest at heart, as Garnaut has, even if their political associations have been with Labor.

Garnaut's book is a formidable summary of where Australia is in economic terms, how it got there, what problems it faces ahead, and how to tackle them. For we of the public, denied the right to see Treasury's Blue Book briefing to the new government, this is our own briefing. It ranges from how to prolong growth, to issues of climate change, competition policy, a new blueprint for federal/state relations, and getting the budget back in the black.

If the government chooses to view each issue through a political prism, and makes decisions accordingly, then it will end up defeating itself.

Garnaut expects Australia's terms of trade - the ratio of export prices to import prices - to fall by 25 per cent before they settle. He estimates that in itself would cut government revenue by up to 4 per cent of GDP, and national income by about 5 per cent. Mining-related investment

is likely to fall from 8 per cent of GDP towards its long-term average of 2 per cent. These are big changes, and they will come at a time when governments are trying to put budgets back in balance.

What to do? The first priority, Garnaut insists, is to try to bring the dollar down, a lot. It's not the only thing we have to do, but without that, all else is in vain. Newman's contrary view that the dollar is only a minor issue is silly, as his muddled comparison of Australian and US wages shows. In \$A, our average manufacturing wage rose 11 per cent between 2009 and 2012. In \$US, it rose 42 per cent. Three-quarters of that rise came from the rising dollar. We cannot restore our lost competitiveness without bringing it down.

Garnaut hopes that more interest rate cuts could do the trick. Experience suggests that's optimistic: in my view, the Reserve Bank needs to intervene in the markets to drive the dollar down, with the government helping by removing the \$2 billion a year tax break to foreign owners of government bonds.

What about the budget? Garnaut's forecasts imply that, without action, the deficit could blow out horribly ahead - yet to cut spending and/or raise taxes would slow the economy further. He advocates doing both, trimming middle class welfare while closing tax breaks, but offsetting this (as Hockey plans to do) by a strong push to build productivity-enhancing infrastructure - chosen on economic merit, not for political reasons.

His next priority is competition policy. He argues that one reason why Australia's cost structure is so high is that we have allowed too much of our economy to be run by monopolies and oligopolies that are poorly regulated, shielded from competition, and able to get away with charging extortionate prices.

Tax reforms matter too, and he has a long list of them. They join industrial relations reform and ongoing competition reforms as his priority list for the long term.

I suspect his passion for reform of federal/state relations will also end up there, although it is within the Commission of Audit's brief. Garnaut wants to go the whole way: he argues we should start again, and assign full responsibility for each issue to one government or other.

For example, the federal government could leave education and transport to the states, but take full responsibility for health, including hospitals, and indigenous affairs.

Special purpose grants would be eliminated, so all Commonwealth grants would be untied: there would be no bureaucrats in Canberra overseeing state spending. Voters would know which government is responsible on any issue. Grants would be mostly handed out on a per capita basis, plus a flat payment to all states regardless of size.

I hope Hockey and Abbott read the book, and think about it. I would encourage you to do the same. These are big issues, and difficult times. Governments seen as self-serving will not deliver, and will not last.

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