

TOWARDS FULL EMPLOYMENT

A Submission to the Prime Minister's Cabinet Committee to Co-ordinate Employment Policies.

FUNDAMENTAL OBSTACLES TO SUSTAINED EMPLOYMENT GROWTH

Australia's unsustainable current account deficit and growing foreign debt are the fundamental obstacles to sustained employment growth. Lack of national savings is one of the crucially important factors in the existence of these two problems.

It follows that, unless these problems are solved, the Government's initiatives in cutting government expenditure, implementing labour market reforms and micro-economic reform, privatisation and reducing inflation and interest rates will not achieve a marked or permanent growth in economic activity and thus a sustainable reduction in the level of unemployment.

NEXUS BETWEEN GROWTH, CURRENT ACCOUNT DEFICIT AND INFLATION

In Australia, the generally accepted economic wisdom is that growth of around 3.5% - 4% per annum is required in order to generate enough jobs simply to stop unemployment from growing.

To achieve a sustainable reduction in unemployment requires an additional 1% - 2% growth per annum.

The Hawke and Keating Governments boasted of their job creation achievements but this employment growth was largely the result of government spending and borrowing. This of course is not sustainable as the new Government knows so well as it tries to solve the "\$8 - \$10 billion black hole".

As professor Judith Sloan has shown, in her research, to achieve a sustainable reduction in unemployment the new jobs have to come from private sector investment and growth.

Our research suggests that, in the absence of a change in policy direction, private sector growth of the level required will not be possible.

Looking back through the '80s and '90s we see that whenever economic growth rises above the 3.5% -4% figure needed simply to maintain the current unemployment level, there is introduced about twelve months later an increase in the current account deficit and a rise in inflation. The consequent policy approach has been to increase official interest rates to dampen down inflation and reduce the current account deficit. The casualty of the rise in interest rates, of course, is private sector investment and job growth.

Australia is caught in a real bind and must change economic direction if the Government is serious about giving everyone who wants a job an opportunity to get one. This will not be achieved by free market economics alone. Evidence around the western world makes that clear.

Economists who argue for an internationally competitive Australia, do not in fact show that this, if achieved,

will reduce unemployment or even provide jobs for Australia's unemployed youth the level of which is a national scandal.

STRUCTURAL IMBALANCE IS A KEY CAUSAL FACTOR

Lack of national savings is a crucial factor in the foreign debt - current account deficit equation and is seen by many as the cause of the deficit. In fact, as BIS Schrapnel argues, the lack of savings and the deficit itself are symptoms of a structural imbalance in the economy. Put simply, in Australia, we do not produce enough of what we consume. Our large scale imports of manufacture goods is only rarely fully offset by our exports of other goods and services.

During the past 30 years or so successive Australian governments have allowed or aided and abetted the systematic dismantling of our manufacturing industries on the presumption that Australia could export agricultural commodities and minerals to pay for the imports of manufactured goods. The decline in real terms in the prices received for these agricultural and mineral exports has exposed the folly of this theory leaving Australia with an economy which is structurally out of balance.

CORRECTING THE CURRENT ACCOUNT DEFICIT

Whilst measures to increase savings can play a part in correcting the current account deficit, a more constructive and necessary longer term solution is to correct the structural imbalance. The way to do this is to rebuild Australia's manufacturing sector, industry by industry.

To do this requires a constructive industry policy, in effect a Strategic Vision for Australia's Manufacturing Industry. This is not about raising or imposing tariff barriers. It is about halting tariff reductions and countering unfair trade barriers to our exports and achieving fair and free trade, not free trade at any cost. It is about getting government off the back of and out of the pocket of business; it is about tax based incentives for export and import replacement manufacturers and risk sharing in export market development; it is about seed capital and access to finance and encouraging research and development and about streamlining patent processes and simplifying small business regulation and compliance.

Much of this will be anathema to the free market economic theorists but will be welcomed by the vanishing middle class - as Professor Michael Pusey, University of New South Wales puts it "There is a broad middle 70% - their incomes are collapsing, their jobs are disappearing, they're getting rationalised and downsized, and they don't like it very much. And they've got every reason not to. Because it's bad economics, and it tears up the social fabric."

MORE THAN JUST A STRATEGIC VISION FOR INDUSTRY - A STRATEGIC VISION FOR AUSTRALIA

Achieving full employment in Australia requires a multifaceted approach as is recognised by the Prime Minister in establishing a committee of cabinet ministers to draw together the various strand of Government

policies affecting employment.

In effect Australia needs a visionary who has the courage to stand up to the free market theorists, to moderate and modify their policies, to draw together the resources of Government, Business, employers and employees and their representatives to work together with the common purpose of generation sustainable new employment by breaking out of the growth limitations of the current account deficit and foreign debt.

Some of the elements of this vision include:

THE FAMILY

The family is the cornerstone of our society, Government policies should be directed towards promoting, supporting, maintaining and protecting the intact family. The objective should be at least one breadwinner in every family.

All Cabinet submissions should be supported by a Family Impact Statement (FIS).

Tax exempt savings accounts should be introduced to promote thrift and to encourage new household savings. (The Government's promise to cut tax on interest by 5c in the dollar for people on incomes of \$35,000 a year is welcome but the benefit will be too meagre to change savings habits).

A Home Child Care Allowance (HCCA) of around \$150 per week should be paid to one parent who opts to remain home to care full-time for the couple's dependent children rather than join the paid workforce. Research suggests that approximately 200,000 job openings would result as mothers (and some fathers), currently in the workforce against their wishes, voluntarily withdraw opting for the HCCA.

Child Care assistance needs to be redirected. It is not the government's responsibility to provide child care where both parents freely choose to enter the workforce. Assistance should be reserved for parents of children with special needs and to assist sole or single parents to become financially independent.

THE ROLE OF THE PRIVATE SECTOR

Private sector investment and expansion is the only sustainable medium for generating the growth needed to permanently reduce unemployment. A strategic vision for Australia is required.

The manufacturing sector must be rebuilt industry by industry.

A competitive tax and regulatory regime for export and import competing manufacturers is required. This will involve tax based incentives and effective research and development programmes.

Export assistance schemes should be streamlined and regularly reviewed for effectiveness.

Fully flexible plant and equipment depreciation should be introduced.

Government cost imposts on business particularly for export and import competing manufacturing business, farmers and other exporters must be eliminated.

NATIONAL SAVINGS AND SUPERANNUATION

Part of the strategic vision should be to change the culture of Australia from ‘borrowing and consumption’ led to ‘savings and investment driven’.

All superannuation funds must be invested in Australia.

The concept of employer/employee funding of compulsory superannuation should continue to evolve so that ultimately the employee bears a fair share of this responsibility.

The compulsory component of superannuation should be re-oriented to become a “National Retirement Savings and Investment”.

The Fund should be invested in secure low cost loans to export and import competing manufacturing businesses with a discretionary option for the Fund to take up equity on favourable terms.

COMPLEMENTARY TRADE POLICIES

The Ministry for Trade should be upgraded to the highest priority and charged with the mission to invigorate, nurture and safeguard Australia’s trade and industry.

Whilst the objective of free trade is laudable, more important is to achieve fair trade. It is quite ludicrous for Australia to impose low or no tariffs on imports from countries which impose very substantial tariffs and other non-tariff barriers on like imports to them.

The present charge to lower tariffs in Australia must be halted whilst our manufacturing sector is rebuilt and a fair trading regime is pursued for all imports and exports, whether primary, secondary or tertiary.

All cases of dumping products on the Australian market must be immediately and vigorously dealt with and other countries’ non-tariff barriers to our exports must be identified and neutralised.

The strictest quarantine standards must be maintained as a barrier against the importation of pests and disease. Trade obligations are not a valid reason for lowering quarantine standards. Australia must strive to become and remain pre-eminent as a supplier of disease free unpolluted food and processed foodstuffs to the rest of the world in the next century.

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