

Ross Garnaut: squandered opportunities and how the wealthy should pay

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Economics professor Ross Garnaut says the maxim remains true that Australia is a great manager of adversity and a terrible manager of prosperity. **Photo: Sean Gallagher**

Tony Walker

Ross Garnaut does not dissemble. “I think this government has inherited a [hard to digest] sandwich,” he says. The Distinguished Professor of Economics at the Australian National University wants to avoid locker-room language in the national business daily, but the above quote reflects his belief the country has arrived at a particularly challenging moment in its economic history.

This includes rising unemployment, falling incomes, intense budgetary pressures and weakness in the real economy at a moment of continuing global uncertainty.

Treasurer Joe Hockey, Prime Minister Tony Abbott and members of their economic team should read Garnaut’s latest book, published this past week: *Dog Days: Australia After the Boom*.

It might give them pause since there are few easy choices for a government seeking to stabilise the economy and return it to a sustainable growth trajectory.

In Garnaut’s view, doing the right thing economically – including further slicing of middle-class tax benefits, additional imposts on wealth-producing components of the economy and

abandoning the expensive direct action carbon abatement program – would dismay the government’s supporters.

But something will have to give.

Garnaut is calling not for a reduction but an increase in taxes on privileges enjoyed by bedrock elements of the conservative constituency. Abbott’s pledge not to raise taxes will be tested.

Central to Garnaut’s prescriptions are additional steps to sharply bring down the value of the dollar, including “macro-prudential” measures in the banking system to reduce risks of a housing bubble.

He would end privileged treatment of housing for capital adequacy purposes and at the same time look at negative gearing on property investments to lessen speculative impulses in the economy.

Instant action needed

The Abbott government might be able to delay remedial economic measures until the new year and the report of its audit committee, but prevarication is not an option unless it is prepared to squander an early political opportunity to put in place policies that will serve it – and the country – later on.

John Howard and Peter Costello did not waste a fleeting political moment, and nor did David Cameron and George Osborne, to name two recent conservative examples.

The onset of a new political cycle – what Garnaut refers to as a “dynastic moment” – coincides with the end of the China boom, certainly a puncturing of the “stronger for longer” prognosis of some of the more exuberant miners at the height of the expansion.

Investment is slowing.

In Garnaut’s view the choice is stark: “We can continue to conduct our public life as if the approaches that seemed good enough in the salad days will still work in harder times,” he says, “or we can restore discipline of the kind that framed public choice in the reform era from 1983-2000, be prepared to think hard about policy rather than shout political slogans and be guided by clear analysis even when it requires difficult decisions.”

This might sound like a faint hope given the political environment in which we operate, but you would hope a crisis brought on by having lived far beyond our means for far too long would concentrate minds.

Garnaut might be said to be prejudiced about an earlier period. As Bob Hawke’s senior economic adviser between 1983 and 1985, he helped put in place economic reforms, including tariff reductions, the floating of the dollar and an accord restraining wages growth, that laid the foundation for Australia’s later prosperity.

However, he credits the Howard-Costello team between 1996 and 2000 for restraining expenditures, paying down debt and proceeding with the Hawke-Keating era productivity agenda before the China boom inculcated a false sense of security and led to an extraordinary period of government profligacy.

Lost treasures

When economic histories are written about the period 2000-2013, historians will marvel at the ability of the political class to get rid of the country's treasure with so little to show for it.

Last Tuesday I sat down with Garnaut in Melbourne's Sofitel Hotel before introducing him at a Melbourne Forum event, a liberal – in the American sense – speakers' forum. It's probably fair to say that at 67, a man many would regard as the country's most influential public intellectual is on something of a mission.

That mission – whether you agree with his prescriptions or not – is to provide what he regards as a reality check for his fellow Australians.

"I'm trying to warn people the party is over," he says. "We have reached a critical moment. Either we indulge in business as usual – what I call 'the great Australian complacency of the 21st century' – or we do something about it."

"If we don't then we're in deep shit."

Asked whether he was counselling the government, Garnaut responds: "I'm not especially talking to government. I'm talking to my fellow Australians."

"We're on a sticky wicket here. We're going to be lucky to get through this one."

Garnaut's choice of Malcolm Turnbull to launch his book at the National Press Club in Canberra is revealing. Garnaut and Turnbull would be of like mind on issues like climate change, but they also share similar views on Garnaut's central thesis – that Australia has wasted its patrimony.

"Almost every page of this book reminds us of the wisdom of *The Economist's* famous conclusion, published in the mid-1980s, that Australia is 'one of the best managers of adversity the world has seen and the worst managers of prosperity'. This is one of the central paradoxes of our economic history," Turnbull said in an excellent speech that got too little attention.

Boosting productivity

Garnaut and Turnbull intersect in their advocacy of a sovereign wealth fund to enable governments to fund productivity-enhancing infrastructure programmes, innovation, education and other forms of investment that contribute to economic development.

What Turnbull and Garnaut are talking about is running larger surpluses for the public good.

“The case against a sovereign wealth fund – or running very large surpluses which leads to the same end – is that taxpayers are better able to manage the excess tax they have paid (over the needs of government) than the government is,” Turnbull said.

“[However], every payment by the government, every cut in tax, even if it is clearly stated to be a one-off, will result in enormous pressure for it to be repeated. And the goodwill engendered by the initial grant will be minuscule compared with the rage and resentment when it is not repeated.”

I ask Garnaut whether he now regrets not having been a more forceful advocate for a “rainy day” fund when Australia was squandering the benefits of the longest economic expansion – and the largest rise in incomes over a short period – that a developed country had ever known.

He notes that he had consistently called for higher surpluses between 2003 (when the China boom kicked in) and 2011 when it began to subside.

“I might have been more emphatic not only about the importance of surpluses, but an institutional mechanism – a sovereign wealth fund – to support the savings effort,” he says.

“We never know when we are going to be entering another period of high terms of trade again so we should be putting in place mechanisms to help us in those circumstances.”

In his book, Garnaut recalls a speech to the Economic Society of Australia in Canberra in 2005 in which he warned it would be wise to save the fruits of the China boom “in case the extraordinary conditions we are enjoying turn out to be temporary – as they always have in the past”.

As he says today: “The rest is history. Australians now have to make the best of the dog days.”

Dog Days: Australia After the Boom by Ross Garnaut, published by Redback, November 2013.

Tony Walker is the AFR’s International Editor

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