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Good-bye to all that complacency

A better post-virus Australia means junking our mistakes in immigration, monetary and climate policy.

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From today, a detailed road map is available for transforming Australia to a country of growing and shared prosperity, social cohesion and leadership in global efforts to reduce carbon emissions. Professor Ross Garnaut's latest book, *Reset*, is, as expected, economically coherent. But its policy prescriptions are also mostly realistic, politically feasible and available to any mainstream political party with ambition for our nation.





Professor Ross Garnaut thinking about Australia's post-virus future. **Photo: Luis Ascui**

Garnaut's analysis shatters the complacency associated with the Morrison government's early goal of snap back. He argues persuasively that snapping back to the pre-pandemic policy settings that yielded weak productivity and wages growth, unnecessarily high unemployment and underemployment and falling private investment would condemn everyday Australians to stagnant or declining incomes.

Garnaut warns that stagnation and a decline in living standards would drive deepening disillusionment with our economic and political systems.

Of all the policy errors Garnaut identifies, he concentrates his energies on three: immigration policy, monetary policy and climate policy.

Reset is not a politically loaded book. Garnaut describes, for instance, the Morrison government's immediate response to the pandemic recession as "an economic policy success story." And he supports the government's investment allowance as a modest [but useful step towards the cash flow tax he and his colleagues have been advocating](#).

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On immigration policy, Garnaut laments an unannounced but fundamental shift: a change in the composition of the immigration intake away from permanent, skilled migration to temporary, low-skilled migration. The effect, he points out, has been to integrate the Australian labour market into the global market for the first time, suppressing both jobs and wages for many Australians.

Yet the Reserve Bank has been worried about low wages growth for several years now, concerned about its consequences for consumer spending which constitutes

now, concerned about its consequences for consumer spending which constitutes more than half of Australia's GDP.

The Reserve Bank has been fighting a war on inflation that was won last century.

But it is on the Reserve Bank's monetary policy settings that Garnaut delivers his most withering critique. He points out that not once in seven years did the Reserve Bank achieve its targets for unemployment or inflation, yet doggedly stuck to its inappropriate settings.

By running a tighter monetary policy since 2012 than the central banks of the world's largest economies, the Reserve Bank has been responsible for what Garnaut describes as the "voluntary unemployment" of several hundred thousand Australians – unemployment he says the Reserve Bank "chooses to allow."

By deliberately keeping Australian interest rates above international levels before belatedly lowering them to virtually zero, and by refusing to engage in quantitative easing before being dragged by reality into doing so, the Reserve Bank has been fighting a war on inflation that was won last century. The Reserve Bank's determination to refight an old war pushed the Australian dollar much higher than it needed to be, badly damaging Australian competitiveness, job creation and private investment.

[Garnaut's analysis and monetary policy prescriptions place him in the same camp as Paul Keating](#) Percy Allan and myself but against the weight of [established opinion](#).

Quantitative easing has its own consequences, fuelling asset prices, including house prices, exacerbating inequality and causing resentment among younger generations. But, as Garnaut points out, the financial authorities have other tools to deal with this, including macroprudential policies to rein in bank lending.

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Within this approach, [the Reserve Bank could buy bonds not from private banks that have bought them from the Treasury, but directly from the Treasury.](#) While

maintaining its independence from government, the Reserve Bank would cut out the banking middlemen and directly fund the public sector's debt requirements.

Garnaut's road map to a sustained recovery with social cohesion involves:

cutting back heavily on temporary migration;

running a monetary policy that aligns with those of the central banks of major economies until our economy yields rising real wages;

maintaining at some level the support being provided by JobSeeker and alternatives to JobKeeper until we are close to full employment;

replacing company income tax with a cash flow tax; and

seizing the opportunity for Australia to become a clean energy superpower afforded by its abundance of renewable energy sources and vast tracts of land into which carbon can be absorbed.

Also on Garnaut's road map is the provision of a universal basic income of \$15,000 per annum designed to restore a sense of equity in the Australian community. He points out that it would be expensive, but at a time when we need to lift consumer spending anyway, while clawing back much of the cost as the workforce participation rate increases through the 2020s.



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My own view is that a universal basic income, as worthy as it is, might be too expensive for either major party to contemplate at this time of burgeoning public

debt – but that it bolsters the case for JobSeeker to be maintained at a level well above that of Newstart before the pandemic struck.

More fundamentally, Garnaut calls for a return to valuing knowledge and our universities as the only viable basis for sound policy making and a revival of respect for our democratic institutions. [Biden's victory over the cults and conspiracies cultivated by Trump and his cronies gives Americans renewed hope.](#)

We Australians can hope too. Garnaut's policy road map gives us hope that Australia can emerge from its great complacency, put its dog days behind it and enter a new era of economic and social progress in a fairer society.

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