HOW BAD IS AUSTRALIA'S ECONOMIC PERFORMANCE AND WHY?

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PREFACE

These lectures commemorate the Foundation Professor of History and Economics at this University, Edward Shann. Professor Shann died exactly half a century ago. But in many respects, his writings have a very modern flavour and, where he opposed the conventional wisdom of his day, economists half a century later side with him rather than with the majority responsible for that conventional wisdom. For instance he and Benham are listed in Crauford Goodwin's book as among the few who were "almost the only remaining vocal free-traders". * And he opposed protection in part for a very good modern reason, that it brought into existence vested interests among business and labour.

Again, as a previous Shann Lecturer, Deputy President J.E. Isaac pointed out, Shann was critical of arbitration decisions which were made in defiance of economic considerations - again a definite concern among many economic commentators in the not so distant past. Finally, as Peter Jonson pointed out to me recently, Shann argued in favour of free fluctuating exchange rates in a 1930 letter to A.C. Davidson, the then general manager of the Bank of New South Wales.**

Those of us who follow in Shann's footsteps have a formidable record to live up to. I wonder how many of us - when we have challenged the conventional wisdom of our day - will be judged to have been correct by our academic colleagues fifty years from now?

* Crauford Goodwin, Economic Enquiry in Australia, Duke University Press, 1966, p.59.

** C.B. Schedvin, Australia and the Great Depression, Sydney University Press, 1970, p.158.

HOW BAD IS AUSTRALIA'S ECONOMIC PERFORMANCE AND WHY?

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INTRODUCTION

This paper has two aims; first to ascertain how bad Australia's economic performance has actually been and secondly to discuss the factors which lie behind our relatively mediocre performance.

When discussing Australia's "economic performance" I shall be concerned predominantly with the growth in output per head of the population - primarily on the grounds that it is this growth in output which, apart from being desired for its own sake by the community, provides the opportunity to solve - or at least ameliorate - such economic evils as unemployment and poverty. However I shall, from time to time during the paper refer to employment growth and other aspects of economic performance.

The Evidence Concerning Australia's Economic Performance

Students of the Australian economy have long been aware that compared to most western economies the long term per capita growth performance of the Australian economy has been extremely poor. Thus, in a survey of the Australian economy prepared for an American publication some 17 years ago I wrote "Australia appears to have attained an exceptionally high standard of living in the nineteenth century. On the other hand the growth in national output per head during the first half of the twentieth century was one of the lowest among the rich nations....."¹ More recent research by Australian economic historians has confirmed the extraordinarily poor Australian economic performance before World War II.² According to McLean, Australia's real per capita income and her real per capita consumption in 1939 was no higher than a quarter of a century earlier - in 1914.

Tables 1 and 2, from McLean, give the most recent longer term estimates of Australian output and consumption growth rates. They show the very substantial spurt in the growth of both living standards and of per capita output after World War II and the

1

"Contemporary Australia: Studies in History, Politics and Economics", by Richard Preston (ed.), Duke University Press, Durham N.C., 1969.

2

Ian McLean "Economic Wellbeing: Living Standards and Inequality Since 1900" in "The Australian Economy Since 1900: Performance and Policies", edited by Rodney Maddock and Ian McLean, Cambridge University Press, (forthcoming).

Table 1

Growth of Real Per Capita GDP and Consumption, 1889 to 1973-74

Five Years Centred on	1889	1911/12	1937/38	1971/72
A. Real GDP Per Capita:				
(i) \$1966/67	913	1,038	1,059	2,267
(ii) change %	13.7	2.0	114.7	
(iii) average annual growth rate %	0.6	0.1	2.3	
B. Real Consumption per Capita:				
(i) \$1966/67	743	799	805	1,592
(ii) change %	7.5	0.8	97.8	
(iii) average annual growth rate %	0.3	0.0	2.0	

Sources: Copied from McLean (forthcoming)

Data from McLean and Pincus "Living Standards in Australia 1890-1940: Evidence and Conjectures", Working Paper in Economic History No. 6, Appendix Table, August 1982, Australian National University. The per capita GDP and consumption figures are averages for the five years centered on the years shown. The consumption expenditure excludes defence spending.

Table 2
GDP and Consumption Per Person and Per Worker
1901 to 1981

Real Private Consumption Per Capita	Real Total Consumption Per Capita	Real GDP Per Capita	Real GDP Per Worker
---	---	------------------------	------------------------

A: \$ (1966/67 Prices)

1901	651	672	819	2,071
1914	800	811	1,046	2,440
1921	719	727	971	2,422
1929	823	830	980	2,424
1933	736	741	934	2,259
1939	773	798	1,045	2,455
1947	854	907	1,179	2,762
1961	1,155	1,203	1,627	3,901
1974	1,747	1,801	2,398	5,508
1981	1,922	1,993	2,632	5,762

B: Annual Average Growth Rate (per cent)

1901-1914	1.6	1.5	1.9	1.3
1914-1921	-1.4	-1.4	-1.0	-0.1
1921-1929	1.7	1.7	0.1	0.0
1929-1933	-2.6	-2.6	-1.2	-1.7
1933-1939	0.8	1.3	1.9	1.5
1939-1947	1.2	1.7	1.5	1.5
1947-1961	2.2	2.1	2.3	2.5
1961-1974	3.2	3.2	3.0	2.7
1974-1981	1.4	1.5	1.4	0.7

Copied from McLean (forthcoming).

Sources: Australian Bureau of Statistics, Labour Reports; M.W. Butlin (1977); McLean and Pincus (1982); Australian Bureau of Statistics, Australian National Accounts, National Economic Summit Conference, Information Paper on the Economy (1983).
All data refer to years ended June 30.

sharp reduction in growth rates after 1974. However, these post-1974 growth rates were still quite substantial by comparison with the quarter of a century before World War II.

If we want to make international comparisons, a number of alternative sources are available - each using somewhat different techniques. One of the simpler techniques of making international comparisons is to use exchange rates to reduce all per capita GDP estimates to one common currency - usually the \$US. This technique has been used in OECD Economic Surveys for individual countries and - at least in earlier years - by the World Bank.³

However, it is becoming increasingly recognised that per capita GDP figures converted at prevailing exchange rates cannot be used for purposes of comparisons of productivity or of living standards - either over time or between countries. An extreme

3

See "Basic Statistics: International Comparisons" at the back of, for instance, the OECD Economic Surveys of Australia. Comparing the first of these surveys (dated December 1972) with the last (June 1985), Australia's ranking in this "league table" has changed very marginally - improving by one rung (i.e. from 10th highest GDP per capita based on 1970 estimates to 9th based on 1983 estimates). In the most recent survey the OECD uses purchasing power parities for 18 of the 24 OECD countries. Unfortunately Australia belongs to the minority of 6. The World Bank used to compare countries on the same basis. However, in recent years, because of the volatility of exchange rates, a system of weighting exchange rates over three years has been used. Over the period I have examined them, the World Bank league tables show some erratic movements in Australia's position. A deterioration from 9th place (in 1969) to 15th (in 1974) is followed by an improvement (to 10th place in 1977); a further deterioration (to 16th place in 1980) and a further improvement (to 12th place in 1982).

example will make the point clearly. In 1980 the nominal per capita GDP of Belgium (expressed in US\$) was 104 percent of the US figure. By 1984 the Belgian figure was only 51 percent of the US figure. Some 95% of this dramatic fall was the result of the depreciation of the Belgian Franc against the US\$. In real terms Belgian per capita GDP fell by less than 3% relative to the US⁴ over this period (i.e. from 76 to 74 percent of the US figure).

Comparisons of per capita income between countries can only be done thoroughly after making careful disaggregated price comparisons. These have not been made for Australia in recent years.⁵ To enable international comparisons to be made more reliably, the Statistical Office of the United Nations has undertaken a detailed study of the 1970 price structures of 16 countries. Unfortunately Australia was not one of these countries. However, structural relationships derived from the 16 countries have been extended to 103 countries (including⁶ Australia) by Summers, Kravis and Heston. This has enabled

4

Example cited in Peter Hill, Real Gross Product in OECD Countries and Associated Purchasing Power Parities, Working Paper No. 17, OECD Economics and Statistics Department, OECD, December 1984.

5

However, see B.D. Haig "Real Product, Income and Relative Prices in Australia and the United Kingdom", ANU Press, 1968. I understand the statistical office of the UN intends to make such a detailed comparison for Australia for 1985.

6

Robert Summers, Irving B. Kravis and Alan Heston: International Comparisons of Real Product and Its Composition: 1950-1977", The Review of Income and Wealth, Vol. 26, 1980.

these authors to provide output and income estimates in comparable \$US terms for 1950 and for each year from 1960 to 1977. This allows us to make both across-country comparisons and comparisons over time.

Table 3 provides real per capita gross domestic product estimates (expressed in 1970 US dollars) for the 24 nations which are members of the OECD. Information is given for four years during this period. As can be worked out from Table 3, Australia has been slipping down the per capita gross domestic product totem pole. In 1950 our output per head was the fifth highest. By 1977 it was the 13th highest. Over this period we have been passed by Sweden, Denmark, Iceland, Germany, France, the Netherlands, Belgium, Norway and Japan, whilst we in turn managed to pass New Zealand⁷. Needless to say, the numbers in Table 3, down to the last \$US, give a spurious impression of precision. It is doubtful whether differences of less than 5% tell us very much about differences as between nations in per capita output - or in living standards. One disadvantage of the Summers, Kravis and Heston series is that they are not available after 1977. Using OECD estimates of real per capita GDP growth rates, I have taken

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These estimates relate to real production at constant (1970\$US) relative prices. Hence they are not influenced by the very favourable terms of trade Australia enjoyed in that year. Summers, Kravis and Heston also provide a relative income series which allows for changing terms of trade. In 1950 this series gives a 13% higher value (relative to the US). For other years examined (i.e. 1960, 65, 70, 73, 74, 75 and 77) the differences are very much smaller. They rise to 4.5% in 1973 and 1974.

Table 3

REAL PER CAPITA GROSS DOMESTIC PRODUCT
EXPRESSED IN 1970 UNITED STATES DOLLARS
(Grouped according to 1977 per capita GDP)

	<u>1950</u>	<u>1960</u>	<u>1973</u>	<u>1977</u>	<u>1984</u>
U.S.A.	3224	3755	5349	5602	6213
Canada	2421	2756	4580	4949	5370
Germany	1363	2610	4117	4434	4999
Luxembourg	2340	2854	4670	4416	4864
Sweden	2158	2851	4299	4399	4937
Belgium	1807	2271	4032	4391	4899
Norway	1767	2270	3698	4385	5266
France	1575	2234	3999	4368	4788
Iceland	1917	2432	4080	4346	4432
Denmark	1865	2428	3969	4219	4817
Netherlands	1659	2245	3637	3873	3948
Japan	589	1173	3532	3788	4893
Australia	2192	2395	3644	3759	4115
Switzerland	1871	2597	3820	3664	3975
Finland	1292	1890	3511	3481	4346
U.K.	1964	2442	3410	3447	3764
New Zealand	2358	2630	3457	3288	3652
Austria	1031	1677	2897	3259	3711
Italy	904	1503	2578	2719	3037
Greece	630	951	2325	2549	2756
Spain	694	1042	2284	2411	2511
Ireland	1132	1403	2269	2388	2629
Portugal	456	687	1618	1633	1833
Turkey	428	634	971	1196	1251

Source. Robert Summers, Irving Kravis and Alan Heston, "International Comparisons of Real Product and its Composition: 1950-77", The Review of Income and Wealth, 1980.

1984 estimated by extrapolation from 1977 figures using growth rates in real GDP per capita.

these estimates up to the most recent year possible - 1984. This makes no difference to Australia's relative ranking (we are passed by Finland, but in turn pass the Netherlands).

Alternatively, one can use OECD Historical Statistics to examine relative real growth rates between countries. Tables 4, 5 and 6 give real GDP growth rates per head of population, per person employed and per person in the labour force. The first of these tables - Table 4 - shows that we were consistently in the slower growing half of the OECD countries and normally in the lowest quarter or third. 1968 to 1973 was our best period when we ranked equal eighth - out of 24 OECD countries.⁸ Tables 5 and 6 use growth in output per person employed or in the labour force as the criterion of ranking. On this basis our relative performance is even less satisfactory since - probably largely for demographic reasons - our labour force participation rate has grown somewhat faster than in most OECD countries.

The Concern About Our Mediocre Economic Performance

Even though our per capita economic growth rates have been relatively low for a long time, this was not a major source of

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While there is considerable consistency in the ranking in these tables, some countries have managed to improve their relative performance over the period since the 1960's (e.g. Austria and Germany) whilst others have shown a deteriorating performance (e.g. Spain). Australia has maintained its relatively poor position in these ranking - though there was a brief period in the late sixties and early seventies when our per capita growth rates exceeded the OECD average.

TABLE 4: Average Annual Per Capita
Real GDP Growth Rate
(in percentages)

1960-1982		1960-1968		1968-1973		1973-1982	
New Zealand	1.3	New Zealand	1.2	U.S.A.	2.2	New Zealand	0.26
United Kingdom)		Luxembourg	2.2	United Kingdom	2.8	Switzerland	0.27
Switzerland)	1.8	Iceland	2.4	Turkey	2.9	Luxembourg	0.36
U.S.A.	2.0	United Kingdom	2.5	Norway)		United Kingdom	0.77
Luxembourg	2.2	Switzerland	2.7	Sweden)	3.3	U.S.A.)	
<u>Australia</u>	2.3	<u>Australia</u>	3.0	Denmark)		Netherlands)	0.80
Netherlands)		Turkey)		New Zealand)	3.4	<u>Australia</u>	0.92
Sweden)	2.5	U.S.A.)	3.2	Switzerland)		Spain	1.04
Canada)		Germany)		<u>Australia</u>)	3.5	Canada	1.10
Denmark)	2.7	Finland)	3.3	Ireland)		Sweden	1.13
Germany)		Netherlands	3.5	<u>OECD average)</u>	3.7	<u>OECD average</u>	1.31
<u>OECD average)</u>	2.8	Norway)		Germany)		Denmark	1.44
Ireland)		Sweden)	3.6	Italy)	4.0	Greece	1.61
Iceland)	3.0	Austria)		Netherlands	4.2	Italy	1.76
Turkey	3.1	Canada)	3.7	Canada	4.3	Germany)	
Norway)		Denmark)		France	5.0	Iceland)	1.77
Belgium)		Ireland)	3.8	Austria)		Belgium	1.82
France)	3.4	Belgium)		Belgium)	5.4	Portugal	1.84
Italy)		<u>OECD average)</u>	3.9	Luxembourg	5.5	France	1.96
Austria	3.5	France	4.2	Spain	5.8	Ireland	2.03
Finland	3.6	Italy	5.0	Iceland	6.4	Finland	2.32
Spain	4.0	Spain	6.4	Finland	6.5	Austria	2.36
Portugal)		Portugal	6.5	Japan	7.3	Japan	2.81
Greece)	4.8	Greece	6.7	Portugal	7.7	Turkey	3.24
Japan	6.2	Japan	9.4	Greece	7.8	Norway	3.27

Source: OECD Historical Statistics, 1960-82, page 44.

Table 5

Average Annual Real GDP Per Person Employed
(in percentages)

<u>1960-82</u>		<u>1960-68</u>		<u>1968-73</u>		<u>1973-82</u>	
New Zealand	0.8	New Zealand	0.9	United States	1.2	New Zealand	-0.2
United States	1.2	Iceland	2.3	<u>Australia</u>	2.2	United States	0.1
Canada	1.6	United States	2.6	Canada	2.7	Canada	0.2
<u>Australia</u>	1.8	United Kingdom	2.7	New Zealand }	3.0	Luxemburg }	0.4
Iceland }	2.1	Canada }	2.9	United Kingdom	3.1	Sweden	0.5
Switzerland }	2.2	<u>Australia</u> }	3.0	Sweden	3.2	Iceland	0.8
United Kingdom	2.3	Switzerland	3.2	Denmark	3.3	Netherlands }	0.9
Sweden	2.7	Denmark	3.7	Switzerland	4.1	Switzerland }	1.3
Netherlands	2.8	Luxemburg	3.8	<u>OECD Average</u>	4.5	<u>Australia</u>	1.4
<u>OECD Average</u>	3.4	Netherlands	3.9	Germany	4.6	United Kingdom }	1.6
Germany }	3.6	Norway	4.0	Belgium }	4.8	<u>OECD Average</u> }	1.8
Belgium }	3.8	Sweden }	4.1	Iceland }	4.9	Italy	2.2
Finland }	3.9	Belgium }	4.3	Turkey	5.1	Greece	2.3
Ireland }	4.3	Finland }	4.9	Netherlands }	5.7	Norway	2.5
France	5.4	Ireland }	5.0	France	5.8	Finland }	3.0
Italy }	6.2	<u>OECD Average</u> }	5.8	Italy }	7.2	Germany }	3.5
Austria }		Germany	6.1	Ireland }	7.7	Austria }	3.6
Turkey		Austria }	6.3	Austria	7.9	Belgium }	
Spain		France }	6.8	Spain		France }	
Greece		Turkey	8.3	Finland		Ireland	
Japan		Portugal	8.9	Portugal		Japan	
		Italy		Japan		Turkey	
		Spain		Greece		Spain	
		Greece					
<u>Omitted:</u>		Japan		<u>Omitted:</u>		<u>Omitted:</u>	
Denmark				Luxemburg		Denmark	
Luxemburg				Norway		Protugal	
Norway							
Portugal							

Source: OECD Historical Statistics, 1960-82.

Table 6

Average Annual Real GDP Per Head of Total Labour Force
(in percentages)

<u>1960-82</u>		<u>1960-68</u>		<u>1968-73</u>		<u>1973-82</u>	
New Zealand	0.7	New Zealand	0.8	United States	0.9	New Zealand	-0.6
United States	1.0	<u>Australia</u>	2.2	Canada	2.4	United States }	-0.5
Canada	1.4	Iceland	2.3	<u>Australia</u>	2.7	Canada	
United Kingdom }	1.7	United Kingdom	2.7	New Zealand	2.8	Netherlands	-0.3
<u>Australia</u>		United States }		United Kingdom	2.9	Luxemburg	0.1
Iceland	2.1	Switzerland }	2.9	Sweden	3.1	United Kingdom	0.3
Netherlands }		Canada		Denmark	3.3	Sweden	0.4
Sweden }	2.2	Denmark }	3.2	Switzerland	3.4	Iceland	0.5
Switzerland }		Luxemburg }		<u>OECD Average</u>	3.5	<u>Australia</u>	0.6
<u>OECD Average</u>	2.6	Netherlands	3.6	Turkey	3.6	<u>OECD Average</u> }	0.8
Belgium	3.0	Finland	3.7	Germany	4.2	Switzerland	
Germany	3.1	Norway	3.8	France	4.6	Italy	1.1
Ireland }		Sweden	3.9	Belgium }		Greece	1.2
Finland }	3.4	Belgium	4.0	Iceland }	4.7	Belgium	1.3
France	3.6	Ireland	4.1	Netherlands }		Germany	1.6
Italy }		<u>OECD Average</u>	4.2	Italy		France	1.7
Austria }	3.8	Germany	4.3	Ireland	4.8	Norway }	
Turkey	4.0	Turkey	4.8	Austria	5.3	Finland }	1.8
Spain	4.5	France	4.9	Spain	5.8	Spain }	
Greece	5.5	Austria	5.0	Finland	6.2	Ireland	1.9
Japan	6.1	Portugal	6.1	Portugal	7.3	Austria	2.0
		Italy	6.3	Japan	7.8	Japan	2.9
		Spain	6.8	Greece	8.7	Turkey	3.7
<u>Omitted:</u>		Greece	8.4	<u>Omitted:</u>		<u>Omitted:</u>	
Denmark		Japan	9.0	Luxemburg		Denmark	
Luxemburg				Norway		Portugal	
Norway							
Portugal							

Source: OECD Historical Statistics, 1960-82.

concern in earlier years. This is perhaps not surprising given our earlier high per capita income. Before World War II "economic development" in Australia referred to the development of natural resources. For this, governments needed to bring people and capital from overseas and by constructing railways and other developmental public works, start off the process of exploitation⁹ of the abundant natural resources of the continent. It was only after World War II that "economic development" became virtually synonymous with growth in per capita incomes - particularly in the poorer countries. However, even then there was no great feeling of urgency regarding the growth of Australia's per capita output and incomes. For instance, the Vernon Report in the middle sixties was reluctant to compare Australia with other countries. "We do not think it possible to specify what Australia's future rate of economic growth should be merely by reference to the performance of other countries at this or other times. Nor do we think Australia's performance can be judged by its place in any simple ranking of the so called advanced countries".¹⁰

It is only recently that our comparatively poor performance has been the subject of widespread community comment and concern. A possible reason for this concern is not so much that our

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H.W. Arndt, "Economic Development: A Semantic History", Economic Development and Cultural Change, April 1981.

10

Report of the Committee of Economic Enquiry, Commonwealth of Australia, Canberra, 1965, Vol. I, para.2-21.

performance is has deteriorated compared to other countries, but that the rate of per capita output increases has declined since the high rates achieved in the late sixties and early seventies. Under these circumstances, it is little consolation to point out that 23 out of 24 OECD countries shared our fate of having to live with substantially reduced growth rates and that our ranking - as shown in Tables 3 and 4 - has hardly changed over this period.¹¹ In fact, in terms of Tables 5 and 6 our ranking has tended to improve since 1973 - but mainly because our employment and labour force growth rates have declined.

Why Has Our Performance Been So Lacklustre?

It would be misleading to suggest that a definitive answer to this question is available. I think it was Robert Solow who once remarked that when economists attempt to explain why some countries grow faster than others, they quickly resort to amateur sociology. Nor is this surprising. Non-economic factors probably loom large in adequate overall explanations for differential economic growth rates and for economic performance generally. For instance, the fact that all three Anglo-Saxon OECD countries performed poorly could indicate that some important peculiarly Anglo-Saxon institutions are inimical to economic growth. However, before discussing some possible institutional

¹¹

The one OECD country to experience unchanged growth rates in the seventies was Norway - which, as a result, moved from fifth worst to the country with the best growth rate. Since Australia - like Norway - is a net energy exporter, one might of course have expected Australia to perform a lot better over this period.

constraints, an examination of some more strictly economic factors is appropriate.

Economic Growth, Initial Income, Population Growth and Capital Formation

It has been widely accepted for some time that economic growth is easier for the followers than for the leaders. In other words, it is easier to "catch up" with nations who have earlier attained high real incomes per head than for those with such high initial positions to maintain their margin of superiority. Hence we would expect real per capita growth rates to be inversely related to real per capita incomes at the beginning of the period. As shown in Figure 1 there is a clear inverse relationship between the 1960 per capita income and the subsequent percentage growth rate. (On average, each \$1,000 more initial per capita income was associated with a reduction in the

Figure 1: 1960-82 Per Capita Growth Rate and
1960 Income (all OECD Countries)

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growth rate of 1 percentage point).¹² Apart from the economic and technological reasons that it is easier to "catch up" by imitating the path followed by a higher income country, there may be some shift in values occurring as countries become more affluent. According to a study by Ronald Inglehart the experience of affluence leads to a shift in values away from hard work, self-discipline, production, public order, patriotism etc. toward such values as self-expression, self-realisation, political participation and concern with the "quality of life".¹³

As shown in Figure 1 Australia lies below the line - i.e. we

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The relationship is significant in either linear, logarithmic or other curvilinear forms. I fitted the following regressions:

			Australia's % difference from regression prediction
RGDP =	5.19 - 0.00101 Y(1960)	$R^2 = 0.53$	-20.0%
	(11.5) (4.99)		
logRGDP =	4.89 - 0.506 logY(1960)	$R^2 = 0.46$	-19.5%
	(5.57) (4.36)		
RGDP =	1.95 + 1913.05 / Y(1960)	$R^2 = 0.37$	-14.0%
	(5.35) (3.60)		

where RGDP is the 1960-82 per capita growth rate (i.e. column I from Table 4) and Y(1960) is 1960 per capita gross domestic product (in \$US 1970 - from Column II in Table 3). Numbers in brackets are the t-statistics. Figure 1 depicts the first equation above.

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Ronald Inglehart, "The Silent Revolution: Changing Values and Political Styles Among Western Republics", Princeton University Press, 1977.

have performed less well than one would expect purely on the basis of our high real income at the beginning of this period of comparison.

It is sometimes suggested that our poor per capita growth performance is at least in part the result of faster population growth in Australia than in most other OECD countries. To test this proposition and another, namely that high rates of capital formation are associated with higher per capita growth rates, I performed some cross-country regressions which are reported in Table 7. These show that both initial per capita income and the proportion of GDP devoted to capital formation are definitely associated with differential per capita growth rates - the first negatively, the second positively. In other words, as one would expect, countries which devote a larger proportion of their output to capital formation tend to have more rapidly growing real per capita incomes.

The relation between population growth and per capita growth rates is negative in all three regression equations. But it is only statistically significant in one of these regressions. It appears plausible therefore that our high population growth rate - by OECD standards - has exercised a negative effect on the improvements in our average living standards. This does not necessarily mean that anyone is worse off as a result of our high population growth rate. Immigrants are likely to be better off than they would be otherwise, whilst the existing population can gain from the rents generated by the increase in population. It

TABLE 7: PER CAPITA GROWTH RATES, INITIAL INCOME,
POPULATION GROWTH AND CAPITAL FORMATION

Equation No.	Constant	Independent Variables					Per cent difference from regression predictions for Australia
		Per capita income in 1960	$\left[\text{Per capita income} \right]^{-1}$ in 1960	Population growth rate	Capital formation	R^2	
1	2.65 (2.24)	-0.00097 (4.96)		-0.31 (1.12)	0.12 (2.81)	0.66	-15.5%
2*	2.26 (1.74)	-0.57 (5.03)		-0.14 (1.71)	0.97 (3.03)	0.64	-6.6%
3	-1.54 (1.52)		2669 (5.3)	-0.72 (2.43)	0.15 (4.03)	0.68	+1.9

* All variables in logs i.e. log per capita growth rate as a function of the three independent variables in logarithmic form.

Numbers in brackets are the absolute t statistics.

may only be the average product per head of population which grows more slowly than otherwise.

It is also of interest to note that, according to one of these equations, once allowance is made for population growth and capital formation, our per capita growth performance is no longer so disreputable - perhaps "mediocre" might be a more apt description. In other words, our high initial income and our high population growth rate may explain a good deal of our lacklustre per capita growth rate. Of course, in as far as our per capita growth rate could be raised by more capital formation, the previously implied criticisms still apply.¹⁴

Growth Accounting

Partly stimulated by the debate about low US growth rates, Edward Denison undertook a major study attempting to ascertain why national growth rates differ.¹⁵ After allowing for special factors relating to individual countries and the particular time period covered, he suggested that growth rate differentials between countries were largely explained by (i) the extent to which inputs had increased, (ii) the gains from re-allocation of labour, augmented by economies of scale and (iii) a residual factor based on advances in technology and "catch up" by

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If the cross country relationships implied by equation 3 in Table 7 applied, Australia could have increased its 1960-82 growth rate by some 50% if it had devoted as large a proportion of its GDP to capital formation as Japan does.

15

Edward F. Denison "Why Growth Rates Differ: Post War Experience in Nine Western Countries", The Brookings Institution, 1967.

countries that had lagged in their production technology.

Eight years ago David H. Robertson applied this Denison¹⁶ classification to Australia's growth performance. The 1981-82 Annual Report of the Industries Assistance Commission contains an extended analysis and discussion of Australia's long term¹⁷ economic performance which also use similar techniques.

Both Robertson and the IAC produced evidence suggesting that Australian economic growth had been more "factor-intensive" - i.e. that total factor productivity growth has been lower and has accounted for a smaller proportion of total growth than in most industrialised countries. Given that Australia has had more immigration and a faster population growth this is perhaps not surprising. But it may be, as Robertson argued that "advances in technology may have had less influence on economic growth in Australia than in many other countries during the 1960's. Few gains seem likely to have arisen from reductions of trade barriers and only comparatively small gains seem likely to have

16

David H. Robertson, "Australia's Growth Performance: An Assessment", in Growth, Trade and Structural Change in an Open Australian Economy, Wolfgang Kasper and Thomas G. Parry (eds), Dept of Economics, RSSS, Australian National University and Centre for Applied Economic Research, University of NSW, 1978.

17

Industries Assistance Commission, Annual Report, 1981-82, Ch.2, Appendices 2.1, 2.2 and 2.3.

occurred from economies of scale.

The subject of trade barriers will be discussed in some detail below. But it is worth re-iterating one of Robertson's points that one important source of per capita growth in Europe, Japan and even the US was not available to Australia - pulling resources out of low productivity uses in agriculture. Given that Australia had a predominantly very efficient and productive farm sector, such productivity gains were not available to us.

One major relation shown by the IAC study was between the trend rate of growth in GDP per person employed and of gross fixed capital formation per person employed. Australia's relatively poor rate of increase in output per person employed (from 1962-1979) was associated with a relatively low rate of increase in investment per person employed. Using 1982 values a similar relationship is apparent.¹⁹

Finally one should refer to one Australian area of relative under-investment - education. According to Denison, more than a fifth of the growth in income per person employed in the US

18

p.83 loc.cit.

19 $EGDP = 1.039 + 0.788EGF \quad R^2 = 0.63$
(2.41) (5.60)

where EGDP is the 1960-82 real GDP growth rate per person employed and EGF is the growth in real GFCF per person employed between 1962 and 1982. According to this equation, Australia's predicted growth rate over the period was 2.54% - or some 41% greater than the actual growth rate of 1.8% given in Table 5.

during the fifties was the result of increased educational "investment". While Australian full-time educational enrolment rates rose in the post-war period, educational participation rates remain low by comparison with most OECD countries and have tended to rise less rapidly.²⁰

The Olson Thesis

The most ambitious recent attempt to explain differential economic performance is Mancur Olson's "The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities".²¹ Olson's theory is a development of his earlier classic "The Logic of Collective Action" (Harvard University Press, 1965). Individuals and firms in stable societies gradually build up dense networks of collusive, cartelistic and lobbying organisations which make economies less dynamic and efficient - as these organisations attempt to eliminate (or at the least slow down) any economic change inimical to their interests. The longer a society goes without a major social upheaval, the more powerful such special interest groups become - and the more they slow down economic growth. Needless to say, powerful special interest

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See for instance Beatrice Reubens, John Harrison and Kalman Rupp, *The Youth Labor Force: 1945-1995*, Allenheld, Osmun & Co, 1981, Table A3.2; or Peter Karmel, "Education in the Eighties: Some More Economic Aspects of Education", *Australian Education Review*, No.15, Tables 2 and 3.

21

Yale University Press 1982. An attempt to examine Olson's thesis is made by a number of authors in "The Political Economy of Growth" by Dennis C. Mueller (ed.), Yale University Press 1983.

groups can also prevent the successful adaptation of an economy to changing economic circumstances such as, for instance, the energy price shocks of the last twelve years. These are the barest bones of Olson's thesis. Olson introduces a good deal of historical and statistical evidence in support of his general hypothesis - as have a number of other writers in Mueller's companion volume to the "Rise and Decline of Nations".

Olson has a brief section on the applicability of his theory to Australia and New Zealand which leads him to the conclusion that his preliminary investigation into Australian and New Zealand history suggests "that the theory fits these countries like a pair of gloves". Basically Olson points out that Australia and New Zealand have far higher average industrial tariffs than the general run of OECD economies. I shall argue that Olson's theory does in fact fit Australia and New Zealand like a pair of gloves, but that he probably exaggerates the growth-retarding effects of protection in Australia. Other rigidities - including those in the labour market - appear to be at least equally responsible and provide important reasons for Australia's mediocre performance within the last 15 years or so.

Rigidities in Product Markets

Rigidities in product markets probably used to be THE factor retarding faster growth in Australia - both made-to-measure protection and restrictive trade practices cossetted the business community and insulated it from change and possible adversity.

Until the early seventies, restrictive trade practices were part of the normal code of business life. Until the early seventies, manufacturing industry was protected from change and adversity by "made to measure" protection. There is little doubt that this climate of cossetting reduced competition and the impetus for innovative entrepreneurship. In both the level of protection and the tolerance of restrictive practices there has been a major change. It is of course true that there are still a great many economic activities one can point to where firms and their employees are shielded from market pressures - either by collusion or by governmental fiat. However, there has been a major change in protective levels and in some other rigidities in product markets.

Protection

Table 8 provides estimates of average rates of effective protection for various Australian traded activities. The first column gives the available estimates of average effective protection for all manufacturing. This information is frequently cited - as is the fact that the dispersion of manufacturing protection has increased. It is also true that protection for clothing, footwear, textiles and motor vehicles has increased enormously during the decade. What is not sufficiently realised is that for the 90 odd percent of the manufacturing sector which is not covered by quotas, average effective protection levels have declined continuously during the seventies and eighties.

As Anderson pointed out recently: "what is remarkable ... is

Table 8

AVERAGE RATES OF EFFECTIVE PROTECTION
FOR VARIOUS AUSTRALIAN TRADED ACTIVITIES

Year ended June 30th	Manufacturing	Agriculture	Manufactu- ring, excl. CFT & MV*	Manuf. plus Agric. minus CFT & MV *
1969	36	n.a.	31.6	n.a.
1970	36	n.a.	31.6	n.a.
1971	36	28	31.6	30.9
1972	35	21	31.3	29.4
1973	35	14	30.7	27.7
1974	27	13	24.2	22.2
1975	27	8	23.7	20.9
1976	28	9	22.4	20.0
1977	27	9	19.9	18.0
1978	23	13	16.3	15.7
1979	24	10	17.4	16.1
1980	23	7	16.8	15.0
1981	23	8	15.7	14.3
1982	25	9	15.5	14.4
1983	25	16	14.5	14.8

Sources: Industries Assistance Commission, Annual Reports 1975-76, 1978-79, 1982-83, 1983-84; "Assistance to Australian Agriculture", Information Paper, Industries Assistance Commission, 1982-83.

* Averages excluding Clothing, Footwear, Textiles and Motor Vehicles use as weights 1977-78 value added statistics.

not that protection for textiles and cars increased in response to declining international competitiveness, because this occurred also in North America and Western Europe.²² It is that other manufacturing protection was reduced by so much. The latter is remarkable not only because it signifies a major turnabout in Australia's policy stance but also because it occurred at a time when manufacturing output and employment were declining absolutely and when the rate of overall unemployment was high and rising. That is, it occurred at a time when one might expect to see protection being increased. That the latter did not occur has been attributed largely to the changed climate of opinion²³ concerning the national interest in protection".

From the point of view of growth, one can argue that the very substantial opening up to market forces which has occurred is much more significant than the relatively small areas of extremely high protection which have held out. After all clothing, footwear, textiles and motor vehicles accounted for less than 2.5% of the total labour force in 1983 (it was 3% in 1978). Compare that with 7.6% of the labour force in agriculture

²²

Current US and EEC effective rates of border protection are (according to IMF sources) in the 40 percent mark for iron and steel and in the 60-80 percent region for textiles and clothing.

²³

Kym Anderson, "Tariff and the Manufacturing Sector" in R.R. Maddock and I.W. McLean op.cit.

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in the Common Market in 1982 or 9.7% in Japan. Most countries have their hopelessly uncompetitive sectors which, for political reasons, they are not prepared to dismantle at too fast a pace. Why are our failures in clothing, footwear, textiles and motor vehicles any more deleterious to our growth rate performance than the agricultural policies of the Common Market and Japan?

As shown earlier, these countries have grown much more vigorously than Australia in the last quarter of a century. One reason we suffer more from protection is that protection is much more damaging in a relatively small economy like Australia and that the biggest economies like the Common Market, the United States and Japan are not affected nearly as adversely by tariffs²⁵ and other forms of protection. The establishment of the Common Market led to a great deal of trade liberalisation on the European Continent. This was probably a major factor in enabling many of the original member countries to "pass" Australia's per capita output level. Another reason our protection may be more harmful is that it is in industries where large economies of scale are possible.

26

A recent Department of Trade background paper sheds some

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1982 OECD Historical Statistics, Table 2.9.

25

"Australia in the Perspective of the Rise and Decline of Nations" by Mancur Olson, in *Australian Economic Review*, 3/83, makes this the centrepiece of his argument about Australia.

26

"Background paper on Australia's Trade Performance and Prospects", Department of Trade, May 1985.

more light on these matters. It provides a classification of imports into "competitive" and other and some information on the slowly growing outward orientation of Australian manufacturing industry since 1968-69. However, there is obviously quite a long way to go before our manufacturing industries reach the level of outward orientation of Canada or Sweden for instance. Table 9 provides some of the relevant statistics.

If one accepts that there has been some welcome opening up of Australian industry to change, how does one explain Krause's observation that "Australia has become less of a trading nation during the post-war period; this is quite the reverse of other industrial countries."²⁷ One important reason may be that Australia confronts much higher transport costs than most OECD countries.²⁸ These of course act as a major additional barrier both to imports and to exports. While geographic distance from markets and suppliers is of importance (particularly for products with a low unit value) some of our high transport costs are no doubt man-made.

An additional important reason for our failure to

27

Richard E. Caves and Lawrence B. Krause, "The Australian Economy: A View from the North", George Allen and Unwin, 1984, p.276.

28

R.M. Conlon, "Trade Costs as Barriers to Australian Trade", C.A.E.R. Paper No. 8, November 1979, University of NSW. R.M. Conlon, "Transport Costs and Tariff Protection of Australian Manufacturing", *Economic Record*, March 1982.

Table 9

OUTWARD ORIENTATION OF AUSTRALIAN MANUFACTURING INDUSTRY

		Import to Sales		Competitive Imports to Sales		Exports to Turnover	
		1981/82	Change 1981/82-1968/69 (Percentage Points)	1981/82	Change 1981/82-1968/69 (Percentage Points)	1981/82	Change 1981/82-1968/69 (Percentage Points)
		(%)		(%)		(%)	
21	Food, Beverages and Tobacco	7.5	+3.0	3.8	0.7	21.0	+2.0
23	Textiles	45.9	+12.7	16.7	-0.1	25.0	+12.0
24	Clothing & footwear	23.6	+16.1	21.3	14.6	1.0	-
25	Wood, etc	11.7	+6.9	7.0	3.1	5.0	+4.0
26	Paper, etc	18.0	+1.0	4.6	1.1	1.0	-
27	Chemicals	32.3	+7.0	3.3	-3.5	11.0	+8.0
28	Non-metallic minerals	10.1	+0.8	5.8	-0.3	1.0	-
29	Basic metal products	10.8	+3.5	4.9	2.1	28.0	+10.0
31	Fabricated metal products	11.7	+2.1	7.0	1.0	2.0	-1.0
32	Transport equipment	38.8	+10.5	14.7	6.2	4.0	+1.0
33	Other machinery equipment	49.9	+16.8	16.4	1.7	7.0	+3.0
34	Miscellaneous manufactures	28.5	+8.7	18.3	3.8	5.0	+1.0
3	Total Manufacturing(a)	25.4	+8.4	9.6	2.1	12.0	+4.0

* Source: Dept. of Trade Background Paper - Australia's Trade Performance and Prospects, May 1985.

participate more fully in the rapid and continuous expansion in world trade from the mid-1950's to the mid-1970's is to be found in the commodity composition of our trade which has been a significant disadvantage. Table 10 provides some IMF statistics on Australia's deteriorating terms of trade over the last thirty years. Australia seems to have suffered particularly unfavourable terms of trade - more unfavourable than practically any other OECD country. On average over the last thirty years it has taken 2% more exports each year to pay for the same volume of imports. Since 1970 our terms of trade have deteriorated even more strongly - so that it has required on average 3% more exports each year to pay for the same volume of imports. This has had a substantially adverse effect on the growth of our living standards. Between 1973 and 1982 output per person employed has increased by 0.9 per cent per annum. To pay the 14% of our gross national expenditure which goes on imports and (net)imported services, we have had to put aside an extra 0.4% of extra output per annum - or almost half the very low level of productivity increase prevalent in the decade before 1982.

Our poor performance in raising exports - and thus participating more actively in world trade - is to a significant extent the result of this adverse terms of trade movement. Thus, according to the 1978/79 Annual Report of the IAC, Australia succeeded in raising its export volume at a substantially higher rate than the OECD average over the period 1960/76 (7.4% per annum for Australia, compared to 6.9% for OECD), but its export proceeds grew at a significantly slower rate (OECD 6.9% per

TABLE 10: Australia's Terms of Trade and their Deterioration

Year	Australia's terms of trade 1975=100.0	Regression Co-efficients of Australia's Terms of Trade on Time						
		1952-83	1955-83	1960-83	1965-83	1970-83	1975-83	
1952	154.1	Beta-coeff	-2.15	-1.76	-1.89	-2.42	-3.34	-2.92
53	174.3	Students.T	8.79	7.05	5.74	5.30	4.22	9.65
54	160.0							
55	137.8							
56	136.8	R ²	0.72	0.65	0.60	0.62	0.60	0.93
57	142.1							
58	110.3							
59	115.4							
60	115.4							
61	112.5							
62	115.4							
63	127.5							
64	130.0							
65	117.1							
66	119.0							
67	114.3							
68	114.6							
69	111.6							
70	106.8							
71	102.1							
72	111.5							
73	141.9							
74	120.7							
75	100.0							
76	99.0							
77	91.2							
78	89.5							
79	89.7							
80	81.0							
81	80.9							
82	79.1							
83	78.4							

(The equation run for the different periods
being: $T \text{ of } T = a + BT$)

annum, Australia 4.8%).

Are our deteriorating terms of trade an example of bad luck or bad management? It is not that Australia has not changed its export mix substantially. When wool became increasingly threatened by synthetics we diversified into meat and grains. When temperate foodstuffs appeared increasingly threatened by European and Japanese protectionism (and by the admission of the U.K. to the Common Market) we moved increasingly into minerals and energy. Now these products appear increasingly to face a bleak future. Maybe it is just Murphy's Law. Yet the Japanese seem to have coped competently with terms of trade which, at least for part of the time, deteriorated as rapidly as ours.

29

IAC Annual Report 1978-79, p.54. Similar comparisons can be obtained from various Department of Trade publications. According to the Department of Trade and Resources paper on "Australian Export Performance in the 1970's" (August 1982) "approximately 60% of the gap between Australia's and the world's actual export (value FHG) growth rates ... was due to the compositional mix of Australia's exports ... Australia has specialised in the export of goods in which demand has been growing slowly." (This compositional effect estimated by the Department of Trade probably does not allow for the fact that a good deal of the growth of exports in temperate foodstuffs takes place within the Common Market - an export market from which Australia is largely excluded.) The Department of Trade Background Paper mentioned above also contains confirmatory material in Tables 9 and 10, which show that, while Australia's export volume growth (of 3.2% p.a. during 1973-83) was significantly above world export volume growth (2.8% p.a.) the average annual growth in the value of Australian exports - at 7.9% per annum, was one of the world's lowest and well below the growth rate in the value of world exports (12.1%).

Restrictive Trade Practices

A freeing of the economy has occurred in those important areas of the economy where trade practices legislation has an influence. R.M. Bannerman, the former Chairman of the Trade Practices Commission, recently described the prevalence of restrictive practices around 1965/66 in the following terms:

"Many businessmen saw the prospect of new (trade practices FHG) law as an unwelcome threat to established patterns of business conduct. There was sometimes a club-like attitude. The rules were known to the members, but they did not want to talk about them to other people....price agreements between competitors were common, although the customers were not told. There was often control of channels of distribution so that not only was price fixed, but also who could trade, and how. In the process competitors could be excluded and new entrants deterred....

The agreements in some industries were adapted from precedents in the same industries in the USA and Britain, and they were retained in Australia after they had become illegal in their countries of origin. Resale price maintenance was a way of life; retailers in particular used to sell the same article at the same price because their supplier insisted on it. The 'tied house' system in liquor retailing and petrol retailing was entrenched and thought to be essential. All these matters had been countenanced, and indeed defended (by the general law of contract).

Individual small businessmen did from time to time air grievances that they were being squeezed out by trade associations or by large companies. However, most people in business accepted the rules in their industries as a fact of life.

It was standard to reject US and UK experience with competition law as irrelevant to Australia, because of differences in our circumstances and in the scale of our industries. It was said that businessmen knew best how to secure efficiency because their livelihood depended on it, and that they should be left to get on with the job."

The 1965 Trade Practices Act and the tougher 1974 Act - which has in most fundamentals survived to the present day - have had important direct and indirect effects. The change in the competitive climate of relevant economic activities has been remarkable - as witnessed by the growth of discount retailers and the demise of the less efficient merchant princes of an earlier era. We have witnessed the abolition of resale price maintenance, of tied petrol and liquor retailing, of fixed commissions by stock brokers and foreign exchange providers, of fixed tariff schedules by insurers - not to mention the opening of the Bankcard scheme to internal competition and to freedom of entry. Of course the Trade Practices Acts were not the sole agents of change - but they contributed to the eclipse of the inward-looking and restrictive attitudes recorded above. They have been an important factor in the restructuring and increased efficiency

which has come in manufacturing, wholesaling, retailing and in the financial sector. A whole generation of business people have grown up in the knowledge that market-sharing at the consumer's expense is neither legal nor ethical and in the long run is probably not good business either.

Rigidities in Product Markets - A Final Comment

I would not want to give the impression that all rigidities in product markets have been eliminated. Apart from further reductions in protection, a good deal remains to be done. Building and food regulations at the State - or sometimes even at the local level - impose major unjustifiable costs in the relevant industries. State purchasing preferences prevent manufacturers from achieving otherwise attainable economies of scale, and hence lower costs for tax-payer purchasers. The two airline policy, coastal shipping and transport generally remain heavily regulated - largely in the interests of producers - as do the egg and liquid milk markets in every State.

My major point above is that there has been substantial progress in the reduction of product market rigidities - without (as yet) any major noticeable beneficial effects on productivity growth.

The Australian Labour Market

Consider the following statistics. After 1973 Australia's economic growth rate dropped by more than 50%; so did the average

OECD growth rate. On the other hand the rate of growth of employment declined much more precipitously in Australia than for the OECD as a whole. Australian employment growth declined by more than 60% compared to less than 30% for the OECD as a whole.³¹ As a result our unemployment rate grew from less than half the OECD average in 1960 to some 6% above the OECD average in 1984. What accounts for this massive deterioration? As pointed out above, our overall economic growth rate - while depressed compared to pre-1973 levels - more or less kept pace with other OECD countries. It was the inadequate generation of employment in Australia that accounted for this massive deterioration.

A substantial part of the blame must fall on Australian labour market institutions. Cross-country studies of OECD labour markets appear increasingly to come to the view that it is real wage flexibility in the face of the supply shocks of the 1970's which represent the distinguishing feature between those countries which performed well in the unemployment stakes and those which did not. For instance Newell and Symons in their recent study of "Wages and Employment in the OECD Countries"

30

For the period 1960-73 the Australian growth rate was 5.2% per annum and the average OECD rate was 5.0%. From 1973 to 1984 the Australian growth rate averaged 2.25%, compared to 2.4% for the OECD as a whole. (The statistics used come from OECD Historical Statistics and the June 1985 issue of the OECD Economic Outlook).

31

The actual average figures (for the same periods as in the previous footnote) being 2.64% to 1.04 percent for Australia, compared to 1.12 to 0.81% for the OECD.

conclude: " The principal distinguishing characteristic of unemployment performance across countries lies in how rapidly the product wage can be reduced following the creation of unemployment. If unemployment exerts a powerful negative effect on the real wage, the empirical analysis suggests that an economy will not suffer from prolonged unemployment".³² A similar finding comes from a 1983 study published in the European Economic Review³³ by Grubb, Jackman and Layard.

Finally, Bruno and Sachs, in their major study of the "Economics of Worldwide Stagflation"³⁴ point out that while no economy escaped the slowdown in GNP growth after the watershed year of 1973, some economies managed to control inflation and/or unemployment much better than others. "..... it appears that real wage moderation is a key to achieving low inflation and low unemployment after a supply shock. Two clusters of labor market characteristics can help us to explain the relative ease with which different countries were able to achieve wage moderation in

³²

"Wages and Employment in the OECD Countries" by A. Newell and J.S.V. Symons, Centre for Labour Economics, L.S.E. Discussion Paper No. 219, May 1985.

³³

Grubb, Jackman and Layard's 1983 study of wage rigidity and unemployment in 19 OECD countries (including Australia) also came to the conclusion that differences in real wage rigidity explain differences in unemployment much better than the actual differences in the real shocks confronting these economies. c.f. Grubb, D., Jackman, R. and Layard, R. (1983), "Wage Rigidity and Unemployment in OECD Countries", European Economic Review.

³⁴

Michael Bruno and Jeffrey Sachs "Economics of Worldwide stagflation", Harvard University Press, 1985.

the 1970s. The first, which has been termed labor market "corporatism" by political scientists, relates mainly to the level at which wage setting occurs. In countries with near universal union coverage and highly centralized negotiations (for example, Austria and Sweden), it seems that wages were kept closer to market-clearing levels than in more decentralized systems (such as the United Kingdom). The second dimension involves the rate at which nominal wages adjust to exogenous shifts in labor demand. We will see that in economies such as that of the United States, with desynchronized bargaining, low wage indexation, and long-term contracts, nominal wages will tend to lag behind prices when inflation is increasing. In such a case, real wage moderation after a supply shock will then be achieved automatically by the temporary jump in inflation."

In the course of their investigation of 17 OECD labour markets, Bruno and Sachs construct a table - reproduced below as Table 11 - which classifies these countries according to the degree to which they conform to these two labour market dimensions which, interestingly, are largely uncorrelated - so that countries could benefit from one or the other of the favourable characteristics. Austria, Germany, Norway, Sweden, and Switzerland come closest to having both sets of favourable institutions, while the Commonwealth countries Australia, New Zealand, and the United Kingdom have had the least favourable structures. What Bruno and Sachs call "nominal wage responsiveness" should not be confused with the responsiveness of aggregate nominal wages to price changes. In fact it tends to

refer to an opposite tendency - namely the responsiveness of real wages to an inflationary shock.

Table 11
Summary of Labor-Market Indexes

		Corporatism		
		Low	Medium	High
Nominal wage responsiveness	High	Australia		Netherlands
		New Zealand		Denmark
		United Kingdom		
	Medium	Belgium	Finland	Austria
		France	Japan	Germany
		Italy		Norway
	Low			Sweden
		Canada	Switzerland	
		United States		

Note: Corporatism index: high = $3.0 < \text{index}$; medium = $1.0 < \text{index} < 3.0$; low = $\text{index} < 1.0$. Nominal wage responsiveness index: high = $5.0 < \text{index}$; medium = $3 < \text{index} < 5.0$; low = $0 < \text{index} < 3$.

Source: Bruno and Sachs, op.cit. p.241.

The Bruno/Sachs dichotomy does not of course answer the question of the most effective manner in which Australia can achieve either real wage moderation and/or the nominal wage responsiveness to exogenous shifts in labour demand which would reduce inflation and unemployment and probably greatly improve our economic growth performance into the bargain. On the one hand one can point to the success of the "corporatist" economies - as Bruno and Sachs and a number of other observers have done. On the other, one can aim more for the second labour market

characteristic - low nominal wage responsiveness - and point to the more decentralised North American and Swiss labour markets as successful examples to emulate.

This is one of the important policy differences between our two major political parties - with Labor aiming for a corporatist solution and the non-Labor parties for what is sometimes called a decentralised wage fixation system and sometimes a deregulated labour market.

So far the corporatist-type solution of the Accord has been astonishingly successful in achieving both real wage moderation and a greatly reduced level of industrial disruption. However, such centralised systems have often lasted successfully for the two and a half years which the Accord has lasted so far and yet foundered before too long. As Barry Hughes pointed out "The striking thing about post-war advocacy of incomes policy is the way in which the star countries have changed over the years. For a long time the Netherlands was held up as an example, partly because of an agreement to cut real wages as a restorative to international competitiveness in the early 1950s. Then, when that experience ran into difficulties in the early 1960s, Sweden took over the role of trendsetter. But by the late 1960s that country, too, found its incomes policy disintegrating. Now Norway and Austria are put forward as model countries, particularly the latter since the Norwegians began to disagree in the late

35
1970s."

In a perceptive recent discussion on the "conditions for Trade Union Wage Restraint" Colin Crouch points to the substantial differences in both trade union and employer organisations on the one hand and legal systems on the other in successful "corporatist" economies.³⁶ Not only are both unions and employers' associations much more highly centralised in successful corporatist economies, but these institutional differences are compounded by contrasting legal systems. "Corporatist institutions are not, therefore, readily imported, as if they were some turnkey technology of industrial pacification. In those countries where they have subsisted over long periods, they are grounded in a host of indigenous conditions rooted in history. Corporatist structures have built on earlier economic interventions by mercantilist states, as in Sweden or Prussia, or on patterns of group accommodation worked out to negotiate long-term religious cleavages, as in the Netherlands. Corporatist structures have proved most durable, ... in small countries where citizens readily understand how

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Barry Hughes "Incomes Policy: The International Experience", Paper given at a National Seminar on Incomes Policy, Industrial Relations Centre, Victoria University of Wellington, September 22, 1982.

36

Colin Crouch "Conditions for Trade Union Wage Restraint" in "The Politics of Inflation and Economic Stagnation" by Leon N. Lindberg and Charles S. Maier (eds.), Brookings Institution, 1985.

necessary wage and price stability is for international competition. Moreover, even if they proved feasible corporatist initiatives would require careful scrutiny. Corporatist arrangements can be exclusionary at the same time they seek to widen the elements of political and economic consultation. While they may admit working-class spokesmen into decisionmaking forums, they can also strengthen the influence of established and conservative unions at the expense of more marginal workers, the nonunionized, the unskilled, women, racial and ethnic minorities. They could also become narrow protectionist coalitions, resistant to industrial change. On the other hand, joint labor and entrepreneurial forums seem to offer a way beyond a destructive zero-sum conflict or harsh social confrontation. "³⁷

Finally, Crouch points out that "the installation of neo corporatist structures, even if they can be successfully introduced, does not insure success..... Corporatism places enormous reliance on the capacity of organisations to regulate their members. This capacity will often fray badly at the edges and may fail entirely....."³⁸

There is no doubt in my mind that a longer-term

37

Leon N. Lindberg and Charles S. Maier, "Alternatives for Future Crises", op.cit., p.583.

38

p.138, op.cit.

"corporatist" solution in Australia can only be achieved if we manage to bring those anarchical tendencies of the Australian trade union movement, which have been inherited from Britain, under some sort of central control. I do not claim to be sufficiently familiar with industrial relations to be able to judge whether this "central control" is best exercised at the ACTU, the Arbitration Commission or the governmental level. However, unless some central control mechanism is put in place, there is no hope of winding down our 8% unemployment levels and getting back to what used to be called full employment - without giving enormous disruptive powers to individual groups and/or trade union leaders in strategic positions.

But if there are major difficulties involved in moving towards a corporatist solution of our problems, there are at least equally daunting road blocks hampering the achievement of a "decentralised" or a deregulated labour market of the type favoured by the dries in the Liberal Party. As Daniel Mitchell pointed out at the Brookings Conference in January 1984 "what is really being advocated by those favoring decentralisation is non-union wage determination".³⁹ The North American and Swiss labour markets have been successful partly because of relatively low

39

CEPR Discussion Paper No. B2, Conference Discussion relating to the paper "The Australian labour Market" by Daniel J.B. Mitchell, January 1985, ANU, p.41.

levels of unionisation. What is doubtful is whether this experience can be translated to a high density union economy like Australia. Certainly the experience of the Thatcher government SO FAR does not lend much encouragement to those in Australia who want to embark on such a course. In spite of record levels of unemployment (almost 60% higher than in Australia at the time this is written) Britain's "deregulated labour market" has produced substantial increases in real wages for those in employment - and large increases in unit labour costs.⁴¹ As the CLARE group put it in a recent survey of the British labour market "inflationary pressure is still present despite over 3 million unemployed and the union pay mark-up is higher in the 1980's than ever before in the post war period".⁴² The UK appears as a classic example of strong fragmented sectional unionism. Their experience would probably be repeated here as long as strong sectional unions survive.

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See for instance Kerry Schott "Policy, Power and Order: The Persistence of Economic Problems in Capitalist States", Yale University Press, 1984, Ch. 3.

41

See for instance the June 1985 OECD Economic Outlook (p.40) which gives unit labour cost increases in manufacturing in 1984 as 4.1% (compared to an average for the big 7 OECD countries of - 0.1%) and forecasts 1985 unit labour costs to increase by 5.5% (compared to 2% for the big seven).

42

"Jobs and Pay" by the CLARE Group, Midland Bank Review, Spring 1985, p.15.

Hence there is every likelihood that a "deregulated" system of collective bargaining with strong unions in place will give us a worse unit labour cost outcome than the present system. It is true that a non-unionised labour market would provide us with less labour market rigidities. Hence lower youth unemployment and greater flexibility in many geographical situations (e.g. the Mudginberri abbatoir) would be obtained. But many will baulk at the disruptive social cost of a major confrontation with the trade union movement unless this is absolutely necessary. At present it seems difficult to sustain the proposition that it is absolutely necessary - though this judgement may change and does crucially depend on the future course of development of the Accord and of the Australian economy generally.

The Public Sector

In all OECD economies the last two decades have been characterised by a rapid growth in the degree of government involvement. In the later seventies, Bacon and Eltis, in a widely publicised book, placed the major blame for Britain's economic problems on the decline of the market sector.⁴³ The market/non-market distinction made by Bacon and Eltis tends to parallel the government/private dichotomy.

43

Robert Bacon and Walter Eltis, *Britain's Economic Problem: Too Few Producers*, The Macmillan Press, 1976.

There are a substantial number of ways in which either too large a public sector or a too rapidly growing public sector might affect economic performance. As public consumption and/or transfer payments grow, either taxes or deficits must grow. A growing or a high tax burden can adversely affect incentives to work, to save or to invest; it can also encourage socially unproductive avoidance and evasion. Funding deficits tends to raise interest rates and thus to depress capital formation.

The public sector can be too large, or growing too rapidly, either because of transfer payments or because of government final consumption expenditure. Social security transfer payments - and the often accompanying poverty traps - can themselves affect incentives. High (or rapidly rising) levels of government final consumption expenditure have also been held to be inimical to productivity growth by such writers as Peacock, Niskanen and Leibenstein,⁴⁴ because of blunted incentives in the public sector. There can be little doubt that the public sector generally and in particular the non-market sector is much less exposed to competition than the private sector and that this has the potential to reduce efficiency improvements.

To examine the practical significance of these possibilities

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For instance, Peacock A.T., "On The Anatomy of Collective Failure", Public Finance, 1980; Niskanen W.A., "Bureaucracy: Servant or Master?", Institute of Economic Affairs, London, 1973; Leibenstein H., "Competition and X-Efficiency: Reply", Journal of Political Economy, 1973. Nor would it be difficult to find some Australian authors expressing similar, often derivative, views.

two areas of investigation are open to us. Firstly, we can examine whether the Australian economy is one which has a particularly large public sector - or a particularly rapidly growing one. Secondly, we can attempt to assess whether we can find evidence that either a large or a rapidly growing public sector has a particularly damaging effect on per capita growth rates. We shall pursue both of these avenues.

Tables 12 to 15 give comparative statistics regarding the size of the public sector in Australia and in other OECD countries. As shown in Table 12 government consumption in Australia is a smaller proportion of GDP than is typical for OECD countries - though government final consumption has grown relatively fast during the last two decades - faster than in all but 4 other OECD countries.

On the other hand, as shown in Table 13, Australia spends relatively little on social security transfers and has experienced the least growth in such transfers out of 20 OECD economies for which we have such data. Total outlays by government (Table 14) - i.e. including government consumption, capital formation and all transfers - again finds Australia among the low OECD spenders and among those where the growth of outlays has been least.

On the other hand - according to the OECD statistics - government employment as a percentage of total employment is higher in Australia than in most OECD countries. There is some

Table 12

Government Final Consumption Expenditure as a Percentage of GDP

<u>1960-82</u>		<u>1981</u>		<u>1982</u>		<u>Growth from 1960-82 in Percentage Points</u>	
Japan	8.6	Japan	10.1	Japan	10.2	Turkey	0.4
Spain	8.9	Turkey	10.9	Turkey	10.9	U.S.	2.1
Iceland	10.1	Spain	11.6	Spain	11.9	Japan	2.2
Switzerland	11.3	Iceland	11.8	Iceland	12.2	<u>OECD Average</u>	2.7
Turkey	12.2	Switzerland	12.7	Switzerland	13.2	France	3.2
Luxemburg	12.9	Portugal	14.9	Portugal	14.2	Portugal }	3.7
Portugal }	13.3	France	15.8	France	16.2	Iceland }	
Australia }		<u>Australia</u>	17.1	<u>Australia</u>	17.4	Switzerland	4.4
Greece	13.6	<u>OECD Average</u>	17.2	Luxemburg	17.6	Spain	4.5
New Zealand	13.7	Luxemburg }	17.5	New Zealand }	17.7	Netherlands	5.0
France	13.9	New Zealand }		<u>OECD Average</u> }		U.K.	5.5
Belgium	14.8	Netherlands	17.8	Netherlands	17.8	Italy	5.6
Italy	15.1	Greece	17.9	Greece	18.1	Austria	5.8
Austria	15.4	U.S.	18.1	Belgium	18.3	Belgium	5.9
Finland	15.8	Italy	18.2	Italy	18.4	Greece	6.4
Ireland	15.9	Austria	18.4	Austria	18.6	Norway	6.5
Netherlands }		Belgium	18.8	U.S.	19.0	Germany	6.9
<u>OECD Average</u>	16.3	Norway	19.1	Norway	19.4	New Zealand	7.0
Norway	17.2	Finland	19.2	Finland	20.0	Canada	7.4
Germany	17.3	Canada	19.6	Germany	20.3	Luxemburg	7.8
Canada	17.8	Germany	20.6	Canada	21.0	<u>Australia</u>	8.0
U.S.	18.3	Ireland	21.8	Ireland	21.7	Finland	8.1
U.K.	18.7	U.K.	21.9	U.K.	22.0	Ireland	9.2
Denmark	20.6	Denmark	27.7	Denmark	27.9	Sweden	13.5
Sweden	22.3	Sweden	29.3	Sweden	29.3	Denmark	14.6

Source: OECD Historical Statistics 1960-82, Table 6.2

Table 13

Social Security Transfers as a Percentage of GNP

<u>1960-82</u>		<u>1981</u>		<u>Growth from 1960-82 in Percentage Points</u>	
Turkey	1.8	Finland	9.1	<u>Australia(1960-81)</u>	3.5
Portugal	4.3	<u>Australia</u>	9.2	Canada	3.8
Japan	6.3	Canada	10.1	Iceland (1960-80)	4.0
<u>Australia</u>	6.9	Greece	10.2	Finland	5.0
Finland	7.7	Japan	10.8	Germany	5.1
Greece	7.8	U.S.	11.3	Greece	6.3
U.S.	8.2	Switzerland	12.4	U.S.	7.0
Spain	8.4	U.K.	13.2	U.K. }	
Canada	8.5	<u>OECD Average</u>	13.9	Japan	7.5
Switzerland	8.6	Ireland	14.3	<u>OECD Average</u>	7.8
Ireland	9.0	Norway	14.5	Italy	8.3
Iceland	9.1	Spain	16.2	Portugal (1960-76)	8.7
U.K.	9.3	Germany	17.2	Ireland (1960-81)	8.8
<u>OECD Average</u>	10.1	Italy }	17.7	Switzerland	9.1
Denmark	11.7	Denmark		Austria	9.4
Norway	12.3	Sweden	18.5	Denmark	10.5
Sweden	12.6	Austria	19.4	Sweden	10.6
Italy	13.5	Belgium	22.6	Luxemburg(1960-80)	11.2
Germany	14.5	France	24.7	Belgium	11.2
Austria }	15.8	Netherlands	26.7	France	12.2
Belgium				Spain (1960-81)	13.9
Luxemburg	16.1				
France	18.6				
Netherlands	22.2				
<u>Omitted:</u>		<u>Omitted:</u>		<u>Omitted:</u>	
New Zealand		Iceland		Netherlands }	Data only available for 1970-82
		Luxemburg		Norway	
		Portugal			
		Turkey		Turkey -	Data only available for 1970,71,72
		New Zealand			
				New Zealand -	No data given.

Source: OECD Historical Statistics 1960-82, Table 6.3

Table 14

Total Outlays of Government as a Percentage of GDP

<u>1960-82</u>		<u>1981</u>		<u>Growth from 1960-82 in Percentage Points</u>	
Turkey	21.0	Switzerland	28.9	Iceland (1960-80)	6.2
Portugal	22.1	Spain	34.1	U.S.	10.1
Spain	22.5	<u>Australia</u>	34.4	<u>Australia</u> (1960-81)	12.3
Japan	23.8	Japan	34.5	Switzerland	12.8
Switzerland		U.S.	35.3	<u>OECD Average</u>	14.2
Greece	24.5	Greece	36.0	Finland	14.6
<u>Australia</u>	27.9	Finland	39.2	U.K.	15.0
Iceland	31.5	<u>OECD Average</u>	40.9	France	16.1
U.S.	31.8	Canada	41.5	Japan	16.3
Finland	33.7	U.K.	48.0	Germany }	16.9
<u>OECD Average</u>	34.2	Norway	48.5	Canada	
Canada	35.5	France	49.2	Portugal (1960-76)	18.1
Italy	38.2	Germany	49.3	Austria	18.2
Luxemburg	39.2	Austria	50.1	Norway	18.9
Ireland	39.6	Italy	51.2	Greece	19.1
Belgium	39.7	Belgium	55.6	Spain (1960-81)	20.4
U.K.	40.2	Ireland	57.1	Italy	23.6
France	40.9	Denmark	59.5	Luxemburg(1960-80)	23.8
Denmark	41.1	Netherlands	61.1	Belgium	26.3
Norway	41.4	Sweden	65.3	Ireland (1960-81)	29.1
Germany	41.6			Netherlands	30.0
Austria	41.7			Denmark	35.9
Sweden	46.5			Sweden	36.2
Netherlands	47.8				
<u>Omitted:</u>		<u>Omitted:</u>		<u>Omitted:</u>	
New Zealand		Iceland		Turkey - Data given only	
		Luxemburg		for 70,71,72	
		Portugal		New Zealand - No data given.	
		Turkey			
		New Zealand			

Source: OECD Historical Statistics 1960-82, Table 6.5

Table 15

Government Employment as a Percentage of Total Employment

<u>1960-82</u>		<u>1982</u>		<u>Growth from 1960-82 in Percentage Points</u>	
Switzerland	8.2	Japan	6.6	U.S.	1.0
Germany	12.0	Switzerland	10.4	New Zealand	1.4
Italy	12.5	Spain	12.5	<u>Australia</u>	3.1
Finland }	12.9	Italy }	15.4	France	3.2
Netherlands		<u>OECD Average</u>		Netherlands	} 4.1
<u>OECD Average</u>	14.0	Germany	15.6	Switzerland	
Austria	14.5	Netherlands	15.8	<u>OECD Average</u>	
Belgium	15.0	France	16.1	Italy	6.7
U.S.	17.1	U.S.	16.7	Belgium	7.3
New Zealand	18.4	Austria	19.2	Germany }	7.6
U.K.	18.6	New Zealand	19.3	U.K.	
Canada	19.4	Belgium }	19.5	Austria	8.7
Sweden	21.8	Finland		Finland	11.7
Denmark	21.9	Canada	19.9	Sweden	19.0
<u>Australia</u>	23.5	U.K.	22.4		
		Norway	22.9		
		<u>Australia</u>	25.4		
		Denmark	31.1		
		Sweden	31.8		
<u>Omitted:</u>		<u>Omitted:</u>		<u>Omitted:</u>	
Japan		Greece		Japan	
France		Iceland		Canada	
Greece		Ireland		Denmark	
Iceland		Luxemburg		Greece	
Ireland		Portugal		Iceland	
Luxemburg		Turkey		Ireland	
Norway				Luxemburg	
Portugal				Norway	
Spain				Portugal	
Turkey				Spain	
				Turkey	

Source: OECD Historical Statistics, 1960-82, Table 2.13.

doubt whether data coverage for Australia and other OECD countries is sufficiently parallel in this area. Another examination of such statistics, this time by Heller and Tait from the IMF, suggests that Australian government employment is nearer to the OECD average.

We turn now to the next way of investigating the possibly deleterious effect on economic efficiency of either too large a public sector or a too rapidly growing public sector. For this purpose I have examined whether we can find any reliable cross country statistical relationship between per capita economic growth rates and the various measures of the size and the rate of growth of the public sector given above. Table 16 presents the results. While initial per capita GDP and the proportion of GDP which is devoted to capital formation regularly affect per capita GDP growth rates, neither government employment, nor government

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See the qualification to the government employment table, p.63 of "The Role of the Public Sector" by Peter Saunders and Friedrich Klau, OECD Economic Studies No.4, Spring 1985.

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Peter S. Heller and Alan A. Tait, "Government Employment and Pay: Some International Comparisons", IMF Occasional Paper No. 24, October 1983. Heller and Tait divide government employment into three categories. Using these categories Australian central government employment is fifth lowest (as a percentage of non-agricultural employment) among sixteen developed market economies; Australian State and local government employment is the third highest among sixteen developed market economies and employment among non-financial public enterprises is eighth highest (or seventh lowest!) among fourteen developed market economies for which comparable data are available. On this crude comparison, if government employment is too big, State and local governments seem more blameworthy than "Canberra"!

Table 16

Regression Estimates of the Contribution of Public Sector Activity to
Per Capita Economic Growth Rates

Equation Number	Constant	Independent Variables								
		1960 per Cap. GDP	Gross Cap. Form. as % of GDP	Govt. Employment 1970-80 average	Govt. Employment Growth *	Govt. Final Consumption 1960-82 average	Govt. Total Outlays 1960-82 average	Govt. Total Outlays 1960-82 Growth*	Sample Size	R ²
1	2.72 (1.75)	-0.00090 (3.19)	0.107 (2.09)	-0.018 (0.41)	0.0018 (0.03)				21	0.69
2	0.806 (0.53)	-0.00101 (5.07)	0.153 (3.36)			0.084 (1.30)	-0.076 (1.31)		24	0.71
3	3.56 (2.53)	-0.00095 (4.04)	0.088 (2.00)				-0.015 (0.61)	0.003 (0.127)	22	0.72

Estimated t-statistics shown in brackets.

*Growth 1960-82 in percentage points.

final consumption nor total outlays have statistically significant effects on per capita growth rates. Nor is there any evidence that the rate of growth of government employment, of government final consumption - or of government total outlays has any statistically discernible negative effects on productivity growth.

One can of course maintain that this is not conclusive evidence that the public sector's growth has not had a major detrimental effect. As Klein has pointed out, public expenditure is by its nature a problematic concept. "Consider a mythical country whose government decides to keep public expenditure below the 25 percent of gross national product once thought to be the maximum tolerable proportion. Instead of introducing a social security scheme or a national health service, it makes it mandatory for every firm comprehensively to insure its employees and their families. Instead of building motorways, it offers generous tax concessions to turnpike trusts. Instead of subsidizing jobs to prevent unemployment from rising, it introduces legislation forbidding companies to dismiss anyone. Instead of spending money on pollution control, it compels private industry to clean up the air and rivers it has befouled. This welfare society has virtually no welfare spending as measured in the conventional public expenditure statistics.

The society is mythical; the instances given are not. Japan has left much of the welfare role to industry; France has relied on private enterprise to build motorways; Italy has made it increasingly difficult for anyone to be dismissed; Sweden has

imposed considerable pollution-control costs on industry. Shifting bureaucratic costs from the public to the private sector may make them less visible but does not necessarily reduce them.

The distinction between public and private spending is therefore arbitrary insofar as it ignores the role of government in determining the latter. And to the extent that countries differ in their mix of public expenditure and publicly induced private spending, comparisons that rest exclusively on the former may yield misleading results. The problem can only be noted, not solved. Figures on governmentally induced private spending simply do not exist. The knowledge that they are part of the total cost of governmental activities, however, underlines the importance of ⁴⁷caution in interpreting public expenditure statistics."

We can therefore only record the Scottish verdict of not proven regarding the alleged adverse effect of Australian public sector activity on our economic growth performance. This is not unusual in our discipline - and it will no doubt have no discernible effect on the strongly held convictions of many that

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Rudolf Klein, "Public Expenditure in an Inflationary World", in Leon N. Lindberg and Charles S. Maier (eds.)op.cit.. John Braithwaite suggested to me that the amount of publicly-induced private spending is likely to be positively correlated with public expenditure. In as far as this surmise is correct, the lack of relation between public expenditure and per capita growth rates takes on a greater significance.

such an adverse effect still exists. But one is perhaps entitled to ask those who hold such strong convictions to produce something more than anecdotal evidence that the growth of the public sector has had some especially harmful effects on Australian productivity - preferably evidence on some comparable international basis.

Some Tentative Conclusions

Let me wind up this lengthy and wide-ranging examination of our economic performance. Australia's growth performance has been inadequate for a very long time - at least since World War I. In the post-World War II period our performance improved. But we still moved from 5th highest in 1950 to 13th highest among OECD nations. Practically the whole of this slippage down the per capita gross domestic product totem pole occurred before 1973. On the other hand, concern for our relatively mediocre per capita growth rates is of relatively recent origins. Our recent (post

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It may be of interest to record the result of Kormendi and Meguire that neither the ratio of government spending to output, nor the growth of the ratio of government spending to output had a statistically significant effect on the average growth of output - using 47 countries, IMF data and a 1953-1977 time period, cf. Roger C. Kormendi and Philip G. Meguire, "Cross Country Evidence on Some Macroeconomic Growth", Working Paper 84-7, Graduate School of Business, Dept of Economics, University of Chicago. On the other hand, David Smith in his "Public Consumption and Economic Performance", National Westminster Bank Quarterly Review, November 1975, managed to obtain a statistically significant negative relationship between public spending (as a % of NID) and growth in per capita real GDP - using 15 OECD countries and the period 1961-1972.

1960) performance is probably best labelled "mediocre" rather than anything worse.

Across OECD countries, per capita growth rates are significantly associated with low initial income, high gross capital formation and to a lesser extent with low population growth rates. Allowing the profitability of economic activity generally to improve and - in the process - encouraging higher rates of capital formation is probably the single most important step we could take to improve our lacklustre per capita growth performance.

Attempting to protect economic actors - business, farmers and labour - from any adverse economic change tends to retard growth, since economic growth almost inevitably brings with it some adverse economic consequences for someone.

In earlier years - say before the seventies - rigidities in product markets were a major factor in insulating and cushioning producers from competition and from economic change. Such insulation was accomplished both by made-to-measure protection and by a myriad of restrictive practices. In both these areas there have been major improvements since the early seventies. A good deal of this change is of comparatively recent origin and may not yet have shown up in any relative improvement in our per capita growth rates. In addition, our manufacturing industry is still not nearly as fully integrated into world markets as would be normal for an economy of Australia's size. We have also suffered from a major continuing deterioration in our terms of

trade in the post war decades. It is a moot point whether this is just bad luck - or whether bad management has to take some share of the blame.⁴⁹ In addition our low educational participation rates could have been a significant disadvantage here.

The breakdown of an authoritarian centralised wage fixation system in the late sixties, when the union movement rendered inoperative the sanctions provisions of the Arbitration system has had a damaging effect on real wage flexibility. As a result, our labour market institutions have been a significant factor in retarding employment growth and, by squeezing profits and thus discouraging capital investment, have probably played an important role in reducing per capita economic growth.

This was the picture until 1983. Since then the Accord has worked well to restore a more favourable economic climate and to give us very high economic growth rates by current OECD standards although these very high growth rates have created their own problems.⁵⁰

There is no evidence that the growth of the public sector in Australia has had a particularly deleterious effect on our growth performance. This evidence is by no means conclusive but it is

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For a recent indictment of Australian management see Hugh Stretton "The Quality of Leading Australians", in *Australia: The Daedalus Symposium*, edited by Stephen R. Granbard, Angus and Robertson, Australia, 1985.

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We are now confronted with a current account deficit which is not sustainable for long and the prospect for our traditional commodity exports remains bleak.

perhaps suggestive. Our public sector is not as large and has not grown as rapidly as in most OECD countries. Nor is there cross-country evidence that large or rapidly growing public sectors have had observable deleterious effects on the growth of living standards.

Australia fits the Olson thesis very well. We have a dense network of interest groups each strenuously resisting any economic change which affects it adversely - whether it be running trains with one driver, increasing shopping hours, higher diesel fuel prices or introducing tax reform. Government is often not sufficiently powerful to impose economic change on resistant pressure groups. The federal constitution, the existence of hostile upper chambers, the fine balance of the opposing political parties, even the frequency of elections, all work to increase the relative power of our many, often very narrowly based pressure groups.

The result has been a sacrifice of economic growth for what are basically very petty short run distributional considerations. On the whole we have not sacrificed growth because we have felt that other goals - such as the protection of the environment, or the elimination of poverty are more important. We have sacrificed growth because our social organisation tended to produce that outcome.

The Hawke government is attempting to find a way out of this dilemma by proceeding along corporatist lines. This involves assembling our very narrowly based interest groups into more

encompassing ones. It is too early to pass judgement on the likely longer-term success of this attempt. So far it is more successful than many cynics - including this commentator - believed possible.