

This Time it's Different

Walter Starck

Economic booms, like third marriages, are a triumph of hope over experience. Although booms always end in busts, every new one regenerates the belief that this one is different. The recent boom was no exception.

However, the current bust is indeed different from any that have come before in several important respects.

- The debt level is unprecedented. Never have so many owed so much which cannot be repaid..
- Never before has the financial system been so laden with the complex poorly understood multiplicities of debt represented by derivatives.
- Never before have national economies been so globalised and subject to events elsewhere over which they have no control.
- Never before has business been so burdened by costly, restrictive, complex regulatory demands while struggling to survive and recover.
- Never before has foreign debt played such a large role in national economies.

The efforts of governments in dealing with the situation all seem limited by an inability to perceive that this recession is fundamentally different and the causes are systemic. Jiggery=pokery with taxes, interest and handouts won't fix it.

The major focus on "restoring confidence" is only a distraction from the real problem. Although confidence is necessary, it is not sufficient. Confidence doesn't make loan repayments requiring income levels which will take years to recover. It doesn't erase huge losses to investors and lenders from debt which cannot be repaid. It cannot eliminate impacts of foreign events and large shifts in foreign exchange rates. It does nothing to reduce the burden of excessive regulation and taxation. Worse yet the aim of "restoring confidence" seems to be to restore the economy to the dysfunctional condition of profligate lending, high debt, inflated assets and mindless consumerism that resulted in the crash.

The concern now being directed at banks over their newly developed caution and constraints in lending seem equally misplaced. With banks own ability to borrow greatly reduced and facing increasing levels of defaults, to resume liberal lending would be not just foolish but a dereliction of duty. Those now criticising them for frugality would soon be demanding their scalps for heedless lending.

In addition to these global conditions Australia also suffers from several additional ones of its own:

- Manufacturing at under 11% of GDP is the lowest of any OECD nation and it is declining.
- Foreign debt near 60% of GDP is among the highest of OECD countries.
- The trade deficit at around 6% of GDP is among the OECD highest.
- House prices at 6 times average annual income are the most expensive in the world. They are twice that of the U.S. before the crash, and unlike there, interest is not deductible.
- The economy is more dependant on volatile commodity exports than any other OECD nation. Both demand and price have fallen markedly along with the Australian dollar.

In the most probable event of a long slow global recovery, we will be faced with severe difficulty in servicing our foreign debt, paying for necessary imports and continuing to borrow to cover growing deficits. Huge decline in state government revenue from property conveyance taxes indicates a collapse in real estate sales has already occurred. The fantasy prices still being asked must soon follow with dire consequences for the banks.

The economy can't be restarted by handouts to low income earners to boost consumer spending. Such money will only vanish into the black hole of debt and interest payments or go onto the tab for consumer imports. It also can't be propped up by make-work projects building unnecessary infrastructure when we can least afford it.

Although the situation is serious, no nation is better placed by natural advantages to weather this economic storm. The resources, skills, equipment, infrastructure and knowhow needed to restore the real economy have not evaporated. It has only been idled by changed circumstances. The fastest most certain way to stimulate restoration of production is to slash the burden of government imposed costs, demands and restrictions.

This recession is indeed different. The global financial machine hasn't just slowed up. It has suffered a major break down and only the productive sector can rebuild it. The most important thing government can do is not handout or bailout; but, get out of the way.

Specifically we need to:

- Drastically reduce all non-essential bureaucracy. This should include commensurate reduction in related government employment. The dole is much cheaper than unneeded bureaucrats and on the dole they will no longer be actively interfering with production.

- The budgets of government departments should be made accountable for productive, cost effective outcomes.
- Significant tax relief must be provided for business, especially in the areas of capital investment and operating reserves.
- Labour markets should be freed up with greatly relaxed employer demands and restrictions. This is essential to both efficiency and job creation.
- Mandatory liability insurance should be abolished. It only fosters carelessness, risk taking and lawsuits.
- Enact a Bill of Rights that provides not just a shield but a sword by which the individual can challenge excessive government imposts on freedom and private property.
- All legislation needs to be subject to risk and cost/benefit analysis.

Obviously this kind of reform isn't going to happen by the good will of government or by popular demand from an electoral majority insulated from the productive activity which supports them. It will have to come from the productive sector itself. By productive sector I mean not just primary producers but all who produce the voluntarily consumed goods and services that comprise the profit making, tax paying economy which is the foundation of our material well being.

While the young, the old, the infirm, the indolent and the government employed still constitute a majority, it isn't such a big one and the smart ones know it is the producers, not government, that supports us all.

Ordinary consumers are beginning to feel the pressure and are no longer complacent. With living costs rising, jobs disappearing, bad economic news flooding in and government obviously floundering, people are worried. A year ago economic common sense looked old fashioned. Bullshit baffles brains. Reality can't compete with fantasy in telling us what we want to believe. High priced experts with impressive credentials assured us everything was under control. We were all going to get rich without having to work. And, don't you worry about that, they had computer models to prove it.

Well, that party only lasted until the newly inflated credit ran out. Now it's the morning after. Now it's time to clean up and get back to work. Producers badly need a national organization and a political part to represent their interests. The organization is required to develop and present a clear picture of the real problems we face and what must be done to effectively address them. The political party is required to put the important issues on the political agenda and offer a clear choice to voters. Although attracting a majority is eminently possible it isn't necessary for success. Being able to deliver anything over 10% of the vote provides the power to determine government and immense bargaining power. If

aligned with a practical, well conceived, clearly presented agenda offering obvious benefit for everyone, real reform is possible.

We are at one of those turning points in history. This is a time of great opportunity and great risk, a time when important advances can be implemented. If we embrace change and shed past mistakes, the future will be bright. If we resist change and cling to failed ideas a new dark age awaits. The choice is ours. Opportunity knocks. All we need is the vision to see it and the will to make it real.