TEN YEARS HARD LABOR

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On the 13th of March 1993 the Labor Party secured a record fifth successive term in government. It is timely to review experience of the economy under Labor and the successes and failures of the Government's policies over the last ten years. The period from 1983 to 1993 has witnessed some profound changes in the structure of the Australian economy and economic policy, including the float of the $A, deregulation of financial markets, and the emergence of the twin problems of growing foreign debt and persistent deficits in the current account. 'Economic rationalist' policies have become a part of Labor's agenda, including deregulation, privatisation, demolition of protection, and a general push towards more market oriented solutions. This thrust has been tempered recently by a pragmatic partial reversion to a more Keynesian approach to dealing with problems of recession. What are we to make of this decade of economic experience?

Ten Years of Economic Policy

It is possible to identify four broad periods of economic change and corresponding shifts of economic policy:

- From 1983 to 1984 policy was aimed at stimulating employment growth through the Accord and through expansionary fiscal and monetary policy. The rapid employment growth exceeded most analysts' expectations. Equally impressively, this was achieved while the rate of inflation was simultaneously reduced.

• From 1985 to 1987 the worsening current account deficit became the dominant concern. The deficit expanded significantly, along with a rapid depreciation in the value of the $A. The terms of trade deteriorated substantially. The response was to tighten fiscal, monetary and wages policies. The depreciation was expected to encourage exports and reduce the level of imports, whilst domestic demand was contained. However, the objective over this period of reducing the current account deficit was not realised, partly because the 'income payable' component was (and still is) the largest deficit item in the current account (Jones 1992).

• From 1988 to 1989 the economy experienced more rapid growth and boom conditions in property markets. The current account deficit continued to mount, and monetary policy was tightened from 1989 in an attempt to reduce domestic demand. This blunt instrument was used to control macroeconomic conditions. It had some evident effect in curtailing import demand, but also depressed the demand for Australian-made products and further undermined the conditions for productive investment.

• From 1990 to the present, the recession has been the dominant concern. Monetary and fiscal policy has been eased, but the recession has proved to be deep and protracted, partly because of depressed or unstable economic conditions overseas in major capitalist nations. It is widely accepted within respectable circles that the prospect for a return to a situation near full employment is remote.

Assessment Criteria

Is it possible to provide an overall evaluation of the Labor Government's policies in these changing economic conditions? Grand claims and counter-claims are recurrently made in the political arena. Is an objective assessment feasible, given that government policy is one of many factors operating within a capitalist economy?

The problems are obvious enough. The economy is not a machine with levers to pull and buttons to press (as Keating recurrently implied in his previous position as Treasurer) to achieve certain well-defined results. Perhaps it is better regarded as a beast which will respond if prodded but not always in a predictable or desirable way! Australia must also be viewed in an international context - as a small open economy subject to external shocks (international price-setting for commodities such as oil, wheat, iron ore and coal) over which Australian governments and companies have little influence. However, it was the Labor Government which was instrumental in furthering the international integration of the economy by floating the $A and deregulating financial markets, based upon notions of level playing fields and fair competition. This suggests that 'international factors' cannot properly be regarded as purely exogenous.

There are at least five different methods for assessing the Labor government's performance over the past ten years. Firstly, there is the hindsight treatment - how did the economy perform relative to how it *could* have performed if better policy decisions had been made at the appropriate times. For example, what if changes in international conditions and the terms of trade had been foreseen and more appropriate industry and trade policies implemented? Hindsight is always easy, and governments can only act, at best, on incomplete current information.

A second possible criterion for assessment could be how the economy performed relative to how it would have performed if the major opposition parties had been in government. By careful examination of the coalition's policy agenda, it may be possible to assess how the opposition would have reacted under the same economic conditions. This is not as absurd as it might initially seem as the policies advocated by the opposition at each stage are well documented. They typically involved 'more of the same' - more wage restraint, more fiscal austerity, more 'demand dampening' through monetary policy, and more tariff cuts. What cannot be determined is how these more extreme policies would have affected economic conditions, but it can be inferred, for example, that more 'demand dampening' would have led to an even deeper recession. Whilst this may appear to be a difficult means of assessment, voters make these judgments (with various levels of sophistication) at each federal election.

A third method of assessment is to compare the decade of economic performance under Labor government with national economic performance under the preceding government or governments. This involves looking at various economic indicators such as inflation, economic growth, and real wages over the past ten years compared with previous years. There are two problems with this approach. Firstly, it cannot be assumed that economic outcomes are the results of concurrent economic policy. The unpredictable nature of the economy means that 'successes' such as low inflation and high rates of employment growth cannot simply be attributed to good management. Secondly, a changing world order has resulted in a more unstable economic environment in recent years compared with the 1950's and 1960's. Comparison of the 1980's and 1990's with the 1950-70 period is difficult under these circumstances.

A fourth assessment criterion is based on international comparisons. How has the Australian economy fared relative to other OECD countries? This approach is also problematic because the Australian economy is unique, with different characteristics to other nations which are not reducible to simple differences in government policies. However, this method does have the advantage of a comparison over the same time-frame and within a relatively common international economic context.

The final possibility is to examine the trends in major economic indicators within the period in question. In what respects was the economy in better shape in 1992 compared to 1983? In what respects has it become worse off? This gives some measure of the legacy of a decade of economic policy. However, there remains the unknown element of how other domestic and international economic forces have affected the conditions measured by the economic indicators.

Taking all these issues into account, it is not surprising that there is no consistent and comprehensive basis for overall policy evaluation. However, it does make sense to survey the changes in general economic conditions as a means of assessing how effectively government policy has operated, albeit in circumstances partly beyond the control of the government. Accordingly, the following evaluation adopts the last of these five methods, whilst also drawing on the previous two methods as far as is practicable where reasonably consistent data is available.

A variety of accepted economic indicators have been chosen to examine the performance of the economy and no systematic attempt is made to model the specific effects of various government policies on particular aspects of economic performance. As such, the association between aggregate economic performance, government policies and other concurrent influences remains impressionistic. Indeed, the policy evaluation aspect in what follows is much more modest than the preceding discussion of alternative methodologies might suggest. The primary objective is to present key economic indicators in an accessible form and to use that information to illustrate the economic experience of the last decade.

One further word of caution should be noted. The highly aggregated data reveals little of regional, class, or gender differences in income, employment, etc. For example, a low inflation rate does not benefit everyone equally; nor has the burden of wage restraint been shared equally. Nevertheless, aggregated data is useful as a measure of 'success' or 'failure' because these, in the first instance, are the measures adopted by the policy-makers themselves.

Table 1: Australian Economic Indicators, 1977-78 to 1991-92

Year	Real GDP Growth (%)	Inflation (%)	Average Wage Growth of All Employees (%)	Real Wage Growth (%)
1977-82 Average	**1.9**	**9.8**	**11.0**	**1.2**
1983-84	5.1	7.9	8.5	0.6
1984-85	5.2	5.8	6.9	1.1
1985-86	4.7	8.4	5.9	-2.5
1986-87	2.9	9.3	6.2	-3.0
1987-88	4.2	7.3	6.0	-1.3
1988-89	3.3	7.4	7.0	-0.4
1989-90	3.4	8.1	6.7	-1.3
1990-91	-0.5	5.3	5.9	0.6
1991-92	0.2	1.9	2.8	0.9
1983-92 Average	**3.2**	**6.8**	**6.2**	**-0.6**

Source: Australian Bureau of Statistics.

Economic Growth

Growth in GDP is the conventional primary indicator of economic performance, showing the change in the value of output each year (after removing the effects of inflation). The first column of Table 1 shows that real GDP growth in Australia has been stronger over the past ten years than during the previous six years. It has been comparable with average OECD growth rates over the same period (Table 4). However, the variations during the 1983-92 period have been striking, with a buoyant start (averaging over 5% per annum) turning eventually to recession. Overall, it has been a very uneven performance.

Inflation

Inflation has declined steadily since 1986-87, and the 1983-92 average is significantly lower than that for the previous six year period between 1977-82 (as shown in the second column of Table 1). Low inflation is usually considered desirable for two reasons. It improves Australia's competitiveness with its trading partners, helping the balance of trade (*if* demand is elastic in response to price). It also reduces the tendency towards widening income relativities - those on non-indexed incomes are relatively less disadvantaged compared to those on fully-indexed incomes during near-zero inflation periods. However, the decade prior to 1983 was affected by successive external oil price shocks which make a comparison between that period and the 1983-93 period difficult. Also, the significant drop in inflation during 1991-93 has evidently been the result of a contraction in aggregate demand due to the recession, and is difficult to claim as evidence of successful economic policy.

Real Wages

Average wage increases have failed to keep up with inflation over the period, as shown in the third column of Table 1. This has resulted in a decline in real wages, as shown in the final column. Small real wage growth before 1985 and after 1990 has been outweighed by the set-backs of 1985-1989. The link between the Accord and these wage outcomes is reasonably clear: while the maintenance of real wages was a key objective of Accord Mark I, this objective was abandoned from Accord II onwards. Real wages over the whole period fell by an average of 0.6% p.a. (compared to a 1.2% real increase in the previous six year period). This should, however, be considered in conjunction with the wage-tax and superannuation trade-offs of the 1980's, whereby tax cuts and superannuation improvements were granted in exchange for workers accepting smaller wage increases. Australia is now one of the lowest taxing nations in the OECD, and it is increasingly evident that the effect of wage-tax trade-offs has been to deplete the potential for public expenditure, including expenditure on the social wage.

Table 2: Average Weekly Full-Time Earnings, 1983-92

Year	Male ($)	Female ($)	Female Wages as a % of Male Wages
1983	352.9	267.6	76.9
1984	379.8	292.0	77.9
1985	415.7	323.8	78.4
1986	439.9	344.9	78.3
1987	472.7	369.9	78.6
1988	501.5	394.3	78.9
1989	538.1	424.4	78.6
1990	580.3	456.0	78.9
1991	617.3	487.0	80.6
1992	641.8	517.4	80.0
1983-92 Average	**494.0**	**387.7**	**78.7**

Source: DX Data.

Average full-time wage relativities between men and women have slowly narrowed to 80% over the period, as shown in the final column of Table 2. Men still hold more full-time positions then women, with many women employed in the secondary part-time labour market.

Employment and Unemployment

The overall rate of employment growth in the six years after 1983 was certainly stronger than the previous six years, as shown in Table 3. Much of the job growth was of a part-time and casual nature. Nevertheless the aggregate figures for employment growth were quite impressive. This makes it all the more distressing that the unemployment problem should have proven to be so persistent, even prior to the beginning of recession in 1990. The unemployment rate remained stubbornly high over the period, with an average rate of 8.2% compared with 6.6% for the previous six years. The OECD comparison is not favourable, as the last two columns of Table 4 reveal: Australia has had consistently, albeit marginally, higher unemployment rates, apart from 1989. Moreover, the strong employment growth generated in the early years of the Labor government has not been maintained, and the current recession has pushed unemployment rates over 11%. A more detailed analysis of the dimensions of the unemployment problem was presented in Eaton (1992).

Table 3: Employment, Unemployment, and Industrial Disputes, 1977-1992

Year	Employment Growth (%)	Unemployment Rate (%)	Average Work Days per Employee Lost in Disputes
1977-82 Average	**1.0**	**6.6**	**0.55**
1983-84	0.9	9.5	0.25
1984-85	3.0	8.5	0.23
1985-86	4.1	7.9	0.24
1986-87	2.2	8.3	0.22
1987-88	3.0	7.8	0.27
1988-89	4.1	6.6	0.19
1989-90	3.8	5.8	0.21
1990-91	2.0	8.4	0.26
1991-92	0.6	10.4	0.20
1983-92 Average	**2.6**	**8.2**	**0.23**

Sources: Australian Bureau of Statistics; and Department of the Parliament Library, *Monthly Economic and Social Indicators*, December 1992.

Industrial Disputes

The rate of industrial disputation has been much lower between 1983 and 1993 then in the previous six years, as shown in the final column of Table 3. An average of 0.23 work days per employee lost due to industrial stoppages over the past ten years compares with an average rate of 0.55 in the previous six year period. Much of the Labor government's success in this respect has been attributed to its relationship with the ACTU under the Accord which has largely removed wages as an issue of industrial disputation.

Table 4: Australia and the OECD, Growth, Inflation and Unemployment 1983-91

Year	Real Growth (%)		Inflation (%)		Unemployment (%)	
	Australia	OECD	Australia	OECD	Australia	OECD
1983	0.9	2.7	10.1	5.6	9.9	8.5
1984	7.5	4.7	3.9	5.6	8.9	7.9
1985	4.6	3.5	6.8	4.9	8.2	7.8
1986	2.2	3.0	9.1	3.0	8.0	7.7
1987	4.6	3.4	8.5	3.6	8.1	7.4
1988	3.6	4.5	7.3	4.3	7.2	6.7
1989	4.2	3.2	7.6	5.4	6.1	6.2
1990	1.5	2.3	7.3	5.8	6.9	6.1
1991	-1.9	0.7	3.2	5.2	9.5	6.8
1983-91 Average	**3.0**	**3.1**	**7.1**	**4.8**	**8.1**	**7.2**

Sources: OECD, *Historical Statistics 1960-90,* Paris 1992. Department of Parliamentary Library, *Monthly Economic and Social Indicators*, February 1993 and December 1988.

Profits and Investment

Patchy economic growth combined with wage restraint was associated with greater buoyancy in profit rates in the 1980's. More generally, other elements in non-wage incomes, such as incomes from rents and interest, surged ahead, with the result that the gross operating surplus expanded. As shown in Table 5, gross operating surplus as a share of the national income was on average some three percentage points higher in the Labor years than in the previous half decade. This was one element in the growing inequality in the distribution of income (Stilwell 1992, Raskall 1993).

A key problem is that the growth in the gross operating surplus was not translated into a growth of productive investment. The second column of Table 5 shows some indicative data. Whether the Labor government can be held responsible for the profligate activities of the 'corporate cowboys' and 'paper entrepreneurs' who flourished and then crashed in the 1980's is a moot point. However, it helped to create the conditions through policies of financial deregulation and lax attention to corporate regulation. Redistribution of income from labour to capital without any control over the disposition of capital proved to be a recipe for a disappointing investment performance.

Table 5: Gross Operating Surplus and Investment in Australia 1977-1992

Year	Gross Operating Surplus as % of National Income	Productive Investment as % of Gross Operating Surplus*
1977-82 Average	**39.9**	**43.5**
1983-84	41.6	38.5
1984-85	41.7	40.4
1985-86	42.2	30.0
1986-87	42.5	45.5
1987-88	43.8	47.3
1988-89	44.7	46.2
1989-90	43.4	45.2
1990-91	42.3	42.6
1991-92	42.4	34.9
1983-92 Average	**42.7**	**41.2**

* Calculated as private gross fixed capital expenditure on equipment and non-dwelling construction as a percentage of gross operating surplus of private trading enterprises.

Sources: Calculated from ABS, *Australian National Accounts*, Cat. No. 5206.0; and *DX Data*.

Table 6: Australian Balance of Payments; Current Account, 1984-92 ($ billions)

Year	Trade Balance: exports-imports of goods & services	Net Income Deficit eg interest repayments	Net Unrequited Transfers eg. migrants' funds	Total Balance
1977-82 Average	-2.1	-2.6	-0.2	-4.9
1983-84	-2.6	-4.9	0.1	-7.4
1984-85	-4.7	-6.8	0.2	-11.2
1985-86	-7.4	-7.9	0.7	-14.6
1986-87	-4.8	-8.7	1.2	-12.4
1987-88	-2.3	-10.5	1.7	-11.2
1988-89	-7.1	-13.6	2.2	-18.5
1989-90	-7.2	-17.2	2.3	-22.1
1990-91	-0.4	-18.2	2.5	-16.1
1991-92	1.2	-15.8	2.3	-12.3
1983-92 Average	-3.9	-11.5	1.5	-14.0

Sources: Australian Bureau of Statistics, *Balance of Payments, Australia*, Monthly, 5301.0 and *Balance of Payments, Australia*, Annual, 5303.0.

The Current Account and Foreign Debt

The current account has been a perennial problem since 1984-85. Despite major problems with the compilation and use of balance of payments statements (Bryan 1989), the current account remains a focal point for policy formulation. Much of the economic policy initiatives over the period can be understood in these terms. Table 6 summarises the trends in the principal components of the current account. In 1989-90 the deficit burgeoned to $22.1 billion, largely due to strong domestic demand fuelling imports, and large interest repayments to overseas lenders. Since then the trade balance and current account balance have improved, largely because of the fall in domestic demand due to the recession. However, the underlying structural problems remain, including an over-reliance on commodity exports, a vulnerable manufacturing sector, and a dependency on overseas borrowings.

Table 6 summarises data on the cumulative effect of these overseas borrowings (offset to a small extent by the growth in foreign assets shown in the second column). Net debt as a percentage of GDP has exploded from 13.5% in 1983 to 38.9% in 1992. Much of this debt was accumulated in the immediate years after deregulation, when international finance markets were accessed more easily then in the past (Heywood and Tamaschke 1991, Dieter 1992). The growth of the foreign debt, two thirds of which is private sector corporate debt, has been the principal factor behind the current account deficit. Outflows of interest payments are recurrently the largest deficit item in the current account. In these circumstances it is hard to envisage a successful outcome of the strategy to trade a way out of the debt situation: the modest trade surplus which has been achieved does not match the scale of the net income deficit. There are also major institutional impediments to further improvements in export performance (Jones 1992).

Table 7: Australia's Foreign Debt, 1977-92 ($ billions)

Year	Gross Debt	Foreign Assets	Net Debt (as % of GDP)
1983	35.9	12.5	13.5
1984	44.1	14.2	15.5
1985	67.5	16.3	23.8
1986	92.1	17.1	31.3
1987	105.7	22.7	31.6
1988	120.5	27.7	31.9
1989	139.5	29.6	31.7
1990	155.5	32.6	33.3
1991	172.9	35.7	36.3
1992	187.1	37.1	38.9

Sources: Australian Bureau of Statistics, *International Investment Position, Australia*, September Quarter 1992, 5306.0; David and Wheelwright (1990).

Interest Rates

Nominal interest rates in Australia have been higher than OECD countries over the period (although comparable with Italy, Spain, Britain, Norway and Sweden). Table 8 compares Australia with the big three capitalist powers. Monetary policy has been used extensively to restrain domestic demand and to encourage foreign capital inflow. The downside is that high domestic interest rates have encouraged domestic companies to borrow from overseas countries with lower rates, resulting in large interest rate repayments, particularly after the $A depreciated substantially during 1984-85. Average annual interest rates in Australia over the period were nearly twice those of the USA, and more than double those of Germany and Japan. There is also little doubt that high interest rates were a contributory factor to the onset of recession in 1991. A more comprehensive analysis would need to examine real as well as nominal interest rates: the falling rate of inflation since 1989-90 (as noted in Table 1) provides some offset to the plunge in the nominal interest rates.

Table 8: 90 Day Interest Rates (%), Australia and selected OECD countries, 1983-91

Year	Australia	USA	Japan	Germany
1978-82 Average	**12.7**	**10.7**	**7.2**	**8.2**
1983	12.2	8.6	6.5	5.8
1984	12.3	9.6	6.3	6.0
1985	16.2	7.5	6.5	5.5
1986	16.4	6.0	5.0	4.6
1987	13.5	5.8	3.9	4.0
1988	12.9	6.7	4.0	4.3
1989	17.7	8.1	4.7	7.1
1990	14.4	7.5	6.9	8.5
1991	10.7	5.4	7.0	9.3
1983-91 Average	**14.0**	**7.2**	**5.6**	**6.1**

* Yields based on: Australia - 90 Day Commercial Bill; USA - 90 Day Treasury Bill; Japan - 3 Month Gensaki; Germany - 3 Month FIBOR. Sources: DX Data; and IMF, *International Financial Statistics Yearbook, 1992.*

Table 9: Australian Government Expenditures and Revenues, 1983-93

Year	Outlays ($M)	Revenue ($M)	Balance ($M)
1983-84	56570	48610	-7960
1984-85	63739	56993	-6746
1985-86	69917	64191	-5726
1986-87	76097	73466	-2631
1987-88	79405	81465	2061
1988-89	82820	88713	5893
1989-90	87835	95871	8036
1990-91	96030	97937	1907
1991-92	102638	93298	-9339
1992-93 (estimate)	109894	96505	-13389

Source: Budget Paper No. 1, Treasury, 1983-84 to 1992-93.

Fiscal Policy

The stance on monetary policy has also changed dramatically over the period, as shown in Table 9. The large deficit at the start was inherited from the previous administration, but the continuation of deficits played a part in the relatively rapid economic growth in the period to 1985-6. Then surpluses from 1987-88 to 1990-91 contained domestic demand, although the rationale had more to do with fears of 'crowding out' than with counter-cyclical macroeconomic management. The deficits from 1991-92 result from the recession, the consequential increases in unemployment and welfare benefits, a lower tax base from which to draw revenue, and increased outlays in an attempt to stimulate the economy.

The final column of Table 9 shows how these changes have impacted dramatically on the budgetary outcomes. Along the way the so-called "twin deficits" thesis (Kearney 1988) has been a casualty, as there has been no evident connection between these major swings in the fiscal surplus/deficit and the persistent current account deficit (see also Monadjemi 1989). The general commitment to a balanced budgetary outcome has also been a casualty, precipitated by the recession but subsequently rationalised in terms of a partial reversion to a Keynesian policy stance.

Conclusion

The economic indicators reviewed here are inevitably selective and do not purport to illustrate all aspects of national economic performance and economic policy, let alone the connection between the two. Nor do they reveal how "the condition of the Australian people" has been effected, taking account of the tremendous diversities in living standards and the various other factors which impinge on socio-economic circumstances.

However, the indicators do suggest very uneven outcomes and a pattern of public policies which is reactive rather than providing direction to Australian economic development. Relative success in reducing inflation, generating employment growth in the 1980's and reducing industrial disputation has not been matched by the poor record of productive investment, foreign debt, current account deficit and unemployment. All in all, by the standards the Government set itself, the outcomes have been disappointing.

The Labor Government achieved re-election in March 1993, presumably (among other factors) because many people feared that the more extremist policies offered by the Liberal Party would create still more divisiveness and unevenness in economic outcomes. It is now timely for Labor to re-think its economic strategy. Alternative proposals exist eg. Flew (1991); Green et al. (1992); Rees, Rodley and Stilwell (1993). Simultaneously, and taking us beyond the confines of this note, it is appropriate to reflect on the overall capacity of government to manage a modern capitalist economy. The further internationalisation of the economy intensifies the constraints on domestic economic management. More generally, steering or orchestrating national economic performance is always likely to be undermined by the decisions of those who own and control the means of production. This is a situation in which it may be claimed that the persistence of economic problems is not merely the product of inappropriate economic policies, but a more general manifestation of the contradictions of disorganised capitalism.

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