

THE CASE FOR A NEW AUSTRALIAN SETTLEMENT

Ruminations of an Inveterate Economist



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Professor of Economics emeritus. After coming to Australia in 1973, I involved myself on the liberal side of the economic policy debate. Now, I live in retirement on the far South Coast of NSW and watch Australian policy, and the public discourse about it, with growing concern. I thank Nick Cater and Prof. David Robertson for inspiring conversations, my wife Regine for being my sounding board and proofreader and Jennifer Buckingham for wise and critical comments, but of course retain all responsibility for the views expressed.

EXECUTIVE SUMMARY

After almost a generation of uninterrupted growth, the Australian economy—and the public mood—have lately been drifting into a sustained slowdown. In many respects, this pattern resembles what happened in earlier long waves of accelerating, then decelerating growth. Although history never quite repeats itself, it appears we are now facing conditions not dissimilar to the traumatic Whitlam-Fraser era: rising unemployment, persistent public deficits, investor hesitation, toothless monetary-fiscal policies, heightened social and political antagonism, and widespread pessimism. A generation ago, this crisis was overcome by gradual bi-partisan economic reforms (1983–2003) that improved economic freedom, favoured the producers and inspired enterprise.

The big challenge now is for Australians to overcome counterproductive political antagonism and agree on some underlying positions that define in what sort of a country we all will want to live. After Federation, such a fundamental consensus was adopted. It became known as the ‘Australian Settlement’, and—whatever its many weaknesses—it served generations from the 1900s to the 1970s to engender a shared fundamental worldview and policy position. Since the various elements of that Settlement became unsustainable, much uncertainty has prevailed and allowed social conflicts and political disagreements to become dominant.

A national conversation should now be started about what fundamental values and policy positions we can and should embrace in the future, so producers in Australia can again envisage the future with a renewed sense of confidence and citizens can again identify more proudly with this country and its civic culture. In my opinion, we need to reaffirm that our society has been and will be based on

respect for individual freedom; that Australia must be pro-actively open to the world and the future; that our governments have again to become small, secular and modest; and that this country is and will remain part of Western civilisation. Defending past socio-economic positions and industrial structures would be reactionary. This cannot be the role of governments. Finding out where future opportunities lie must be left primarily to the many who are engaged in diverse economic, cultural and political pursuits and whose trials and errors will be best guided by free competition.

Based on these basic normative tenets, numerous practical policy consequences are discussed here: immigration and population policies; the fostering of free product, labour and capital markets; natural resource development; economic policies to promote productive engagement in the location Australia; the size of government and the shape of federal-state relations; national defence; and commitments to fundamental freedoms of speech, association and movement. Many of these policies will require an informed view of our changing future and an understanding that, with respect and good will, short-term political conflicts can be converted into fruitful long-term complementarities. A rethinking will also require that the public discourse shifts from politicised re-distribution of incomes and wealth to production, productivity and competing with the best and most knowledgeable in the world.

The task is to avoid a re-run of the protracted crisis of poor economic performance and social pessimism in the Whitlam-Fraser years. This time around, we can be at the forefront of a new long-term global growth wave. Australia's international standing and proud history should now guard us against an economic cringe and stifling pessimism. It should rather inspire us to be intellectually enterprising. After all, the Australian spirit has always been to perform admirably under adverse circumstances and show more loyalty and respect for each other than is presently in evidence in too many places.

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‘[Some pieces] you write for pleasure, others you write out of a sense of duty, because there are things to be said — and other people have better sense than to say them.’

— *Tom Sowell*

Our economic predicament since the unravelling of shared, fundamental understandings—which became known a generation ago as the ‘Australian Settlement’—and the paucity of inspiring concepts of how to reinvigorate productive activity, cannot be properly addressed without placing the current situation in a wider context of space and time. That Australia can thrive in an open world economy is now widely, though imperfectly, understood. By contrast, few observers realise we are now living through the slowdown phase of one of the recurrent long waves of economic growth, which are predominantly a psychological and a supply-side phenomenon. For a decade now, we have gone through a rigidification of socio-economic conditions and a narrowing of entrepreneurial opportunities similar to what happened in the

‘Great Land Crash’ of the late 1880s, the Great Depression in the 1930s, and the twin oil crises of the 1970s and early 1980s. Mere demand stimulus has never worked in those difficult times. What is required is reformist leadership to inspire trust and enhance entrepreneurial flexibility; indeed a cultural counter-revolution that reawakens the traditional Australian spirit of self-reliance and can-do optimism.

The big question as of 2015 is: What can and need be done to avoid a prolongation of the dim, pessimistic outlook? Do we have to repeat the depressing, painful experiences of the Whitlam-Fraser era, or can we, this time round, turn Australia into a forerunner of a new wave of entrepreneurial optimism, innovation, job creation and growth? History of course never repeats itself. The circumstances of the 2010s differ in important respects from those in the 1970s. However, what has not changed is a need to inspire renewed confidence so people can make full, creative use of their faculties, also as producers, i.e. workers and businessmen who create the jobs and whose productivity performance has of late been poor. Therefore, there is a need to supplement the prevailing focus on the spenders (consumer households, public-sector spending) and aggregate demand management with a principled, far-sighted, supply-side policy concerning the producers (the workers, job creators, learners and innovators).

This essay will first attempt to outline the differences between the economic constellation that frustrated Australians in the Whitlam-Fraser era of slow economic growth, and the present—and discuss what challenges this produces. Second, it will list a large number of desirable reform measures, which together would seem to form a cohesive whole, and one that inspires confidence.

These reforms amount to a re-orientation of economic policy. They should be embedded in a ‘New Australian Settlement’ that goes beyond mere economic policy and establishes agreed basic understandings across political and social divides:

- (i) a re-affirmation that ours is a free, educated, wealthy society, based on mutual respect and benevolence and an individualistic order;
- (ii) recognition that ours is open to the world;

- (iii) recognition that we are open to the future and embrace enterprise;
- (iv) commitment to small, secular government, which focuses on the protection of our time-tested way of life; and
- (v) recognition that this country has been, and will remain, committed to the liberal, secular and democratic values that underpin Western civilisation — and hence will remain a member of the Western community of nations.

One practical consequence is that economic policy must not just address fluctuating aggregate demand. The efforts of Treasury, Finance, and the Reserve Bank should be supplemented — as in other, successful countries — by a well-placed government department that acts as a forceful advocate of a competitive liberal order and supply mobilisation not only around the Cabinet table, but also in explaining what matters for sustained prosperity to the Australian community.

The Focus is on the Open Economy

Longer than most, Australians were wedded to the conceptions of a closed, self-sufficient national economy. This has now changed. People and policy makers now understand we live in an era where essential production factors — capital, productive knowhow, highly skilled people and bundles thereof (called ‘firms’), and raw materials — have become internationally mobile and that it is for the representatives of the immobile production factors, such as unions and government administrations¹, to make a specific location (country, State) attractive. They must promote internationally competitive unit costs; for example, wages relative to labour productivity. Since wage cuts are unattractive, the focus must be on productivity improvements. In important aspects of economic policy

¹ Government administrations provide an essential production factor in the form of external institutional back-up for the prevailing internal (cultural) institutions. In this respect, legislation, regulations and judicial practices can be seen as an important, but immobile, production factor that can enhance or diminish the opportunities for all others.

the long-standing Australian policy of 'welfare for business' has been abandoned. Many Australian workers and business leaders now realise that going the path of least resistance, i.e. appealing for government assistance, is no longer automatically open to them and that effort is needed to adjust, innovate and develop new markets. This marks a remarkable end point to our fatal, productivity-sapping tradition of protectionist interventionism. The unashamed protectionism of the years before 1980, which was followed first by a tentative acceptance of openness, has now been replaced among many by an active commitment to free trade and open investment as a way to enhance prosperity. In this respect, a generation-long educational campaign by professional economists in academia and government, and by enlightened publicists, was a success.

In this context, it seems important to spell out who we have become under the influence of the changes during the past generation. In other words: what are our key cultural dimensions that may help or hinder our future international competitiveness and that define our collective character?² A national debate over which cultural attitudes to cultivate and which to modify in the interest of long-term wellbeing would be of advantage to raise consciousness about the fundamental cultural-institutional handicaps that would need to be changed, and the strengths that would need to be exploited. The alternative is a protracted process of traumatic experiences, which will then change these cultural attitudes over the timespan of a generation. It seems preferable to act consciously and attempt pro-active reforms. But is this feasible in a free country?

Of course, remnants still linger of the old thinking, which was cultivated under the influence of the long-lasting Australian Settlement. This now holds less true of business enterprises and workers that compete in world markets. However, political support

² It seems useful to compare ours with the two major cultures, with which Australians will have to compete. Our cultural values are very similar to those in the United States, though Australians are somewhat more risk-averse and more self-indulgent. On the other hand, Chinese values are far more collectivist-hierarchical and oriented towards the long term than ours. In Asia, therefore, Australian individualism and low respect for set hierarchies and traditions can translate into a strong competitive advantage for research and openness to improvements of life in the future, but this is hampered by a low long-term orientation and propensity to postpone gratifications (see the massive international work done by the renowned Hofstede Centre (Hofstede *et al.*, 2010).

can still be garnered in particular from parts of organised labour, (often well-to-do) sections of the community and activists—who promote single issues, such as environmental goals, at the expense of a more comprehensive, balanced pursuit of a multiplicity of fundamental values, such as prosperity, security, justice, peace and liberty. For example, nationalist-*dirigiste* demands can be heard in 2015 to restrict the selling of a product we can profitably produce with our ample resources of space and skills, namely apartments and housing, and ‘exporting’ it to well-to-do foreign homebuyers, who might well become important friends of Australia if they were able to buy a stake in our prosperity. Knee-jerk regulatory attitudes still come to the fore at times; for example, when isolated cases of suspected product failures or food contamination lead to immediate, bi-partisan protectionist demands for regulations that inflict costly red tape. Similar reactions, reflecting the protectionist attitudes of yesteryear, surface when state governments at times launch costly, inward-looking, picking-winners initiatives—for example when they engage in subsidy competition to attract major events and other circuses to state capitals. Voters are presented with up-beat, *ex ante* cost-benefit analyses, but these often end in tears and with losses to taxpayers.

The long-term damage, which the Australian Settlement embedded in the national psyche, still lingers in places more than a generation after it has fallen to pieces. A consequence is that too much is asked of the government (claims mentality). Disappointments and sullen protests surface and the will to improve one’s personal fate by one’s own initiative wanes. It is time to address the long-term costs of the original Settlement head-on by shaping a New Australian Settlement, as proposed at the end of this paper.

On the whole, it is now widely accepted, even among populist politicians, activist bureaucrats and most unionists (public-sector ones and Greens excluded), that government must not try to pick winners. Instead, they must embrace a neutral, non-interventionist attitude to all economic activities that private enterprise may attempt to pursue, except when such activities lead to clearly defined, properly assessed deleterious side impacts on others.

Times to Thrive, Times to Feel Disappointed

The long-term context of the present economic situation is less well understood, let alone taken into account in policy making—partly a consequence of the mathematical, abstract model-building and ahistorical biases of the economics profession, partly a consequence of the short-termism of our age. The contributions of the eminent Austrian-American economist Joseph A. Schumpeter to the analysis of long-term business cycles, which are frequently referred to in the literature as ‘Kondratieff cycles’, are largely overlooked or forgotten.³

A simplified, modern explication of long waves of decades accelerating and decelerating economic progress is based on:

- (a) the psychology of gradual adjustment of expectations in the light of past experience (adaptive expectations model, Simon, 1982; 1983); and
- (b) the changing interplay between economic aspirations and enterprising forces on the one hand, and aspirations for socio-political security and rent-seeking on the other.

In a nutshell, the alternation between accelerations and decelerations in the pace of economic growth between successive generations can be sketched as follows:

- When times are good and many experience positive surprises (better profits, job promotion, income and wealth

³ Schumpeter (1939, 1947, 1961), also Freeman (1982). The relevant aspects of this contribution have been summarised in Kasper, *et al.* (1980), pp. 8-14; and Kasper (2000), pp. 7-11. In this latter work, published in 2000, I based the following prediction on the Schumpeterian notion of Kondratieff cycles: “Can we expect a new down-wave in or after the first decade of the new millennium?” (p. 6); “[t]he years after 2005 could therefore resemble the late 1880s, the 1920s/early 1930s or the 1970s, when growth faltered badly and a crisis of the capitalist system heralded one or two decades of economic disappointments” (p. xii). Systematic research on these generation-long waves in attitudes and opportunities for production and social harmony was begun by Russian statistician Nikolai Kondratieff (born 1892 — murdered in Stalin’s gulag 1938). He had noticed that the crisis of capitalism, which Karl Marx had described as terminal, was in reality followed by renewed accelerations of profitable growth and innovation. Kondratieff, having discussed his evidence with Lenin, repeated his insights in the presence of Stalin, who dispatched him to the *gulag* and eventual death. See for example: <<http://www.financialsense.com/contributors/christopher-quigley/kondratieff-waves-and-the-greater-depression-of-2013-2020>>).

improvements), people adjust their expectations and aspiration upward, till reality no longer matches those rising expectations. Income distribution then tends to become more uneven. When disappointments and distributional conflicts cumulate, the *zeitgeist* swings towards emotionalism and political interventions, often to secure past socio-economic positions of well-connected groups. Private investors then typically hold back: who would make his capital hostage to over-regulation and possible government or union monopolies? Effort, risk-taking and innovation take a hit, and unemployment and political antagonism rise: the typical constellation of a (Marxian) crisis of capitalism. Rigidification (sclerosis) reinforces the disappointing trend.

- After a decade or two, new social sobriety spreads. Emotionalism again gives way to a rational search for feasible solutions. A new generation of political and business leaders and the electorate modify untenable expectations and begin to compromise for the sake of more growth of income and asset wealth. Often, not always, political elites recognise that this is the time for institutional reforms that promote individual initiative, flexibility, innovation and risk taking (as was, for example, the case in the years after World War II and again after the oil crises, when reformers such as Thatcher, Reagan, later Gorbachev and Deng Xiaoping gained the upper hand). Waves of entrepreneurs then bring new growth industries to the fore that in turn leads to positive surprises.

In Australia, as elsewhere in the developed economies, these growth waves have lasted between 35 and 40 years.

The slowdown phases (or Marxian crises of capitalism) are typified by many giving themselves to mistrust and unspecified fears of the future, which produces widespread and self-fulfilling social pessimism. These phases in the life of nations are also typified by increasing antagonism over the distribution of incomes and wealth, i.e. by envy. The understanding that market-generated patterns of income distribution are always transient is disregarded in favour of defining

and politically exploiting the notion of clashing social classes.⁴ Bestsellers that predict gloom and highlight a more lopsided distribution of incomes and wealth typically announce and accompany down-phases: Malthus' mistaken prediction of global starvation (1798), Marx' *Das Kapital* (1860s-1870s), Spengler's *Decline of the West* (1920s), the Club of Rome's *Limits to Growth* (1970s), and Thomas Picketty's *Capital in the 20th Century* (now) come to mind as opinion leaders. A contemporary, specifically Australian manifestation of the despairing pessimism, which is typical of Kondratieff down-waves, is Paul Kelly's (realistic) analysis of the present Australian political crisis (Kelly, 2014, in particular pp. 497-510).⁵

Nowadays, the theory of long waves, which relate to generation-long fluctuations in the mobilisation of supply factors (such as capital, labour, skills, natural resources, institutional order, and the like by entrepreneurs) and productivity, is widely accepted among economic historians.⁶ It is also understood that an eventual turn to a more open, more flexible and less regulated economy again improves the income-earning opportunities of newcomers (for example the young and start-up industries), results in more vertical mobility, and leads to a more even income distribution. Visible-hand redistribution may be politically popular in slowdowns, but it all too often postpones the onset of a new up-wave. After all, deregulation and more open competition tend to enhance the income-earning opportunities of all.

A first conclusion from long-wave theory for present-day Australian economic policy is that mere (Keynesian) demand stimulus meets with inelastic supply, is almost futile, and always costly. Ever

⁴ The distribution of incomes in any one period depends on performance and luck. It is never permanent: For example, almost half the companies among the 1999 'Fortune 500' are no longer in it.

⁵ The concept was made popular in the 1990s by author Paul Kelly (Kelly, 1992). He showed that the policies of new Australian Federation were built on five fundamental agreements: the White Australia policy; industry protection, wage arbitration, state paternalism and Imperial benevolence.

⁶ Systematic research on these generation-long waves in attitudes and opportunities for production and social harmony was begun by Russian statistician Nikolai Kondratieff (born 1892 — murdered 1938). He had noticed that the crisis of capitalism, which Karl Marx had described as terminal, was in reality followed by renewed accelerations of profitable growth and innovation. Kondratieff, having discussed his evidence with Lenin, repeated his insights in the presence of Stalin, who dispatched him to the *gulag* and eventual death. See for example: <<http://www.financialsense.com/contributors/christopher-quigley/kondratieff-waves-and-the-greater-depression-of-2013-2020>>.

since the Roosevelt administration in the US tried ‘stimulus’ during the Great Depression, it has led to rising bureaucratisation, public indebtedness, eventual tax increases and interventionism—factors that delay the upturn (Shlaes, 2007). The by now long-lasting attempt to stimulate job creation by monetary easing has had disappointing effects on underlying growth in Japan, the US and more recently in the European Union (QE = questionable expansionism). Once governments are seen to be obliged to rescue banks and businesses they deem to be ‘too big to fail’, they prevent overdue, necessary cleansing crises and allow untenable imbalances to fester. Necessary learning processes are avoided. F.A. Hayek compared demands for this policy approach with the pleas of heroin addicts for one last shot.

A second conclusion is that the hardening of socio-political antagonism and the tenacious defence of past positions only prolong the down-wave. Mere demand management then detracts from urgent measures to enhance the flexibility of economic structures. This happened in the Fraser era of the 1970s: monetary masochism inflicted pain, but—combined with protectionism and industrial interventionism—did little to relaunch spontaneous entrepreneurial growth. If one wants to shorten the current slowdown phase that began in 2008, one has to become resolute in advancing measures for flexibility and free the way for new entrepreneurial initiatives. What is needed is the simplification of the rules (the institutions) by comprehensive regulatory and tax reform.

A third conclusion from a producer-focused analysis of long-term growth waves (Schumpeter, 1939) is that slowdowns are typically times when entrepreneurs shorten their time horizons and confusion takes over. Then, the rewards for clear, forward-looking leadership are high, and the costs of confusing, short-sighted policy signals are painful. If, for example, the priority is—as it should be—to reduce federal and state budget deficits, then new big spending initiatives, such as for paid maternity leave or a picking-a-winner medical research fund, confuse and poison entrepreneurial trust. A clear commitment by government to concentrate on its core tasks and get out of the way of new entrepreneurs will pay handsomely. In Australia’s case as of 2015, the question is: can we, by 2020, be

well on the way to a new upturn into two decades of prosperity? Or will we prolong—as in the Fraser era—the era of disappointments beyond 2020?

Collectivist policy makers and their supporters, who know what their ideology and actions have been doing to economic growth and living standards, often console themselves, telling others that “high income—beyond a certain level—does not make you happy”. Those who are now arguing that growth is not worth having, must be honest and admit this means that better health care, aged care, education and many material amenities, which other nations will continue to attain, should not be pursued in Australia. Let that case be debated by the wider public and with the younger generation, whose life opportunities are at stake. Australian policy makers who tell us ‘more income does not make us happy’ need to be told that this is a lie: higher living standards go along with more life satisfaction (*Our World in Data org*, 2015).

Another argument that typically surfaces at times when growth slows is that—in a finite world—ongoing growth is simply not feasible. It needs to be tackled, too. Growth in real per-capita incomes is not the progressive accumulation of physical ‘stuff’. It is increasingly the result of a higher valuation of molecules that we take from Nature. Think of a grain of sand, which—thanks to better human knowledge—is converted into a highly valued computer chip... and we will not be running out of silica any time soon. The fast-growing services sector uses relatively little physical material. The primitive mechanistic view that future generations will simply not be able to live more affluent lives is therefore wrong. After all, the most important production factor is knowledge, and the more people there are on earth interacting freely with each other, the more valued factor combinations (which add up to the gross domestic product) can be expected.

Two Observations about Human Nature and Basic Economics

It seems necessary to make two brief, possibly tedious, abstract methodological observations. Opinion leaders who want to re-cast economic policy in the spirit of the above conclusions need to be clear in their minds about two basic facts: (i) that economic life is about discoveries in conditions of uncertainty and ignorance, and (ii) that stable, simple rules (institutions) are needed for people to cope with uncertainty. They should also be made aware that academic observers, media commentators and policy advisors, who dominate the public debate in Australia, often implicitly assume these complications away, assuming perfect knowledge. This makes their advice all too frequently unrealistic and misleading.

- *Economic life is about discovery*: In reality, economic life is the complex dynamic interplay of partly ignorant, opportunistic, self-motivated decision makers. The assumption in prevalent orthodox economic textbooks and underlying much economic modelling deviates fundamentally from this understanding of human nature: many economists still implicitly assume that decision makers have 'perfect knowledge' and are motivated to maximise utility and profits. However, one can only maximise if one is fully informed about available resources and wants. Yet in reality, economic life deals with uncertainties and unknowns; it is an open-ended, evolutionary game of discovering and testing new resources (including knowledge) and testing whether these meet possibly newly discovered wants (Kasper, Streit, Boettke, 2012, pp. 525-535; 'Epilogue: Institutional versus neoclassical economics'). Producers rarely maximise anything; instead they adapt their expectations in the light of past experience (adaptive rationality) or pursue an idea irrespective of cost (entrepreneurial rationality). Orthodox economists frequently also still assume (wrongly) that 'all else remains the same', whereas in reality policy actions normally have unexpected side effects, so that interventions often only lead to the need for further interventions down the track.
- *Reliable institutions are crucial to entrepreneurial discovery*: It follows that devices that economise on the need to know and learn are of great benefit to productive interaction. The devices that have made progress in productivity and living standards possible are, first and foremost: secure private property rights and simple, easy-to-

follow rules that govern their free use within the rule of law — in short: economic freedom. These ‘traffic rules’ are called institutions. Complex modern economic life requires simple rules; changing and contradictory interventions are increasingly counterproductive. This insight must be made explicit by political leaders and made the target of economic reform at a time when complex, contradictory institutions and existential insecurity about fundamental values are deepening the slowdown of entrepreneurial activity — be it business decisions to invest and innovate products and processes, be it in private decisions to acquire skills and knowledge. All these decisions cost resources.⁷ This insight also underpins the need to create a cohesive, rational policy design, which aims at creating an order of rules, which promote and fortify economic freedom.

These two points encapsulate the intellectual contribution of the now thriving schools of Austrian economics and public choice. Australian policy makers and key government departments have not yet fully absorbed the key lessons from this way of thinking about economic issues. To be blunt, much economic analysis and comment, which emanates from the present generation of professional economists and econometricians, is therefore unrealistic and often misleading.

Some public commentators frequently describe the Austrian approach as ‘(extreme) neoliberal’ — a label that is meaningless, unless it is meant as an all-purpose invective. Yet, these fundamental criticisms of the current economics orthodoxy are now more and more widely accepted in developing countries, as well as in business circles and law schools.

⁷ Property uses must of course not harm others. However, unacceptable harm has to be defined by laws, and the burden of proof that harm has been done rests with the claimant and has to be adjudicated before courts. We are now faced with the more and more widespread presumption that economic and industrial initiatives are harmful and therefore need to be licensed. This white-ants the time-tested property-rights system and hence economic growth. The conflict is particularly acute around environmental issues, which are surrounded by fuzzy rules and populist procedures.

The Growth Wave of 1973–2008

The global oil crises of the early 1970s and early 1980s marked the end of a long period of relatively fast economic progress and the beginning of a Kondratieff-style slowdown in most of the developed world. In the case of Australia, the turnaround coincided roughly with the end of the Menzies era of steady, though not spectacular, economic growth and the ‘Whitlam revolution’ after the Australian Labor Party had won office. When traditional verities and institutions were challenged, not least in economic management, many Australians became confused about the economic ground rules, the economic order. Economic growth took a dive, and the knee-jerk reaction of Keynesian demand stimulus by massively increased public spending, boosting public-sector wages and accommodating monetary policies, failed to restore high employment and customary growth rates. Instead, wage and price levels shot up in a reaction that economists characterised as ‘inflated demand meeting inelastic supply’ or ‘stagflation’. As in other major developed economies, expansionary demand management was abandoned before long. In Australia’s case, this occurred after the sacking of the exuberant and deficit-prone Whitlam government and a massive electoral win of the conservative administration led by Malcolm Fraser. The Fraser government’s macroeconomic posture of drastic monetary restraint and budget constraint was insufficient to bring down inflation and restore high employment, outcomes typical of Kondratieff slowdowns (Kasper, 2011).

The disappointing, and for many painful, economic experience could in part be explained by a dogged defence of Australia’s long-standing tariff protection and the heavy-handed regulation of domestic markets (see box). A concentric effort on making product, labour and factor markets more competitive—in other words a pro-growth supply-side policy—could have mitigated the traumatic experiences of the Whitlam-Fraser era, but such reforms had to await the election of the more reform-friendly Labor government led by Bob Hawke, and a more economically rational Opposition. By then, the prevailing global intellectual climate had swung towards enhancing economic freedom most notably through the deregulation, tax-cutting and

privatisation reforms of the Thatcher government in the United Kingdom and the Reagan initiatives in the United States. Individual entrepreneurs gained new leeway to expand supplies of goods and services, for which they discovered a demand. Consumers benefitted from greater price-level stability and growing employment. They discovered new wants and new goods and services to enjoy. In Australia, the way for a more liberal economic policy stance by government and opposition had been prepared by pro-market arguments by economists, business leaders, publicists, some parliamentarians, and a protracted public debate about the costs of rigidly regulated markets (see box).

A Personal Tangent:

The Making of a Production-Oriented Economist

When I came to Australia in 1973 as an academic visitor, I found a country in a collective state of confusion and a pervasive, almost existential insecurity. The great hopes of the 'Whitlam revolution' had been quickly swept away by: petrol rationing; impatient but futile fiscal-monetary stimulus that had produced run-away inflation *and* rising unemployment; a massive, surprise tariff cut that was disruptive to producers; and mounting budget deficits. My new colleagues at the Australian National University seemed clueless. Everyone I met in Canberra displayed an inward-looking industrial and cultural cringe and was supportive of the tariff wall, at least as long as unemployment was high. After 1975, the Fraser government's monetary policies led to short and weak cyclical upswings with poor job creation, but cyclical downturns that increased unemployment (ratchet effect). No one could explain to me why such a resource-rich, well-placed, young country with a high savings rate had managed rather mediocre economic growth and was so vulnerable to the oil crisis; indeed why, for example, the monopoly supplier of steel (BHP) in a country with world-class coal and iron ore only managed paltry rates of return on capital.

My disbelief stemmed mainly from my life experience before coming here. I had spent my formative years in post-war Germany, where the government had practiced classical-liberal policies that cultivated a trust-inspiring order (*ordo* liberalism, see Kasper, Streit, Boettke, 2012, pp. 346-362). The citizens had responded by saving, investing in skills and machinery,

innovating and working together. The resulting economic growth not only absorbed the millions of homeless, ethnically cleansed Germans from the East and millions of defeated, demoralised returning PoWs, but also restored a measure of collective self-respect. Economic prowess was perceived as a way of rehabilitating the nation from heinous political crimes. Opening the economy to international trade and investment was crucial (export-driven growth). Studying economics at universities, where classical liberal thought pervaded our courses, reinforced what I saw around me. In the early 1970s, I became the Economic Advisor to the Malaysian Finance Minister and witnessed the beginnings of the East-Asian ascendancy. Autocratic governments in the 'tiger economies' opened the national economies to international investment and trade and cultivated simple rule systems, which encouraged the people to respond by saving, investing in skills and machinery, innovating and working together. The resulting economic growth inspired a new sense of confidence in the population and, over time, generated a rising middle class that in many, though not all, cases replaced autocrats with democratic governments.

Against this background of having lived in countries where the winners far exceeded the losers, the Australian situation in the 1970s seemed puzzling. The sombre collective mood seemed wholly unnecessary. I diagnosed the root cause of it all as pervasive supply-side rigidity and suggested a therapy: deregulation all around, beginning with pre-announced, gradual tariff cuts and a commitment to macro-economic discipline. The prognosis looked even worse (Kasper, 1977). This was met with amused headshakes at the Australian National University and the Canberra branch of the Fabian Society. Canberra insiders told me that what I proposed was — in the Australian setting — naïve, outrageous and basically undoable. What I of course failed to realise at the time was that the people I met suffered from deep and lasting damage to the national psyche inflicted by the long-lasting paternalism of the Australian Settlement. People were used to the fundamental certainties of steady, though mediocre, income growth and egalitarian outcomes for all thanks to pervasive visible-hand interventions.

Eventually, I discovered more and more Australians who agreed with my diagnosis and therapy — business people, a few civil servants (in Treasury and the Industry 'Assistance' Commission), a few journalists and some parliamentarians, who were becoming known as the 'Dries' and were Fraser's only effective opposition at the time. After I had led a small team of analysts who prepared and published a scenario study commissioned by

Shell Australia (Kasper, *et al.*, 1980), my newfound friends coalesced into the 'Crossroads Group', a discussion group of engaged freedom fighters and production-oriented citizens from around Australia and New Zealand (Kelly, 1992, pp. 34-53). I discovered that — contrary to the impressions I had initially gained in Canberra — a robust and well-informed classical liberal tradition existed in Australia, which had underpinned the colonies' economic flourishing in the nineteenth century and which was still very much alive in certain quarters.

Eventually, the Hawke-Keating government embraced a part of the 'Crossroads/Dries agenda': de-control of capital markets; floating the dollar; cutting tariffs in pre-announced, gradual ways; and deregulating some product markets (Hyde, 2002; Kasper 2011).

The liberalisation strategy of the Hawke-Keating administrations was, however, deficient in that it exempted two 'holy cows', remnants of the old Settlement: big government engaged in massive welfare-statist redistribution; and the protection of union power (regulated labour markets). The 'Accord' was no substitute for labour-market reform; it kept a lid on real-wage increases (limiting the 'wage overhang') but increasingly contributed to a 'productivity under-hang', as union organisers shifted their initiatives to extracting concessions on non-wage work conditions.

The Howard-Costello governments partly completed the reform agenda: The Federal government returned to budget surpluses and slowly reformed labour markets; AWAs, water front reform, facilitating small enterprises (which turned unionists into sub-contractors and mini-capitalists). The reforms — partial and poorly coordinated as they may have been — enabled Australian producers to respond to the rapid demand expansion from China, predominantly by supplying mineral products (Kasper, 2011).

The *ex-post* conclusion by parts of the political establishment that *Work Choices* was 'dead, cremated and buried' and that labour market reform had to be taken off the political agenda was typical of the tail end of a long Kondratieff upswing. After 20 years, more than half a generation without a genuine short-term recession, most

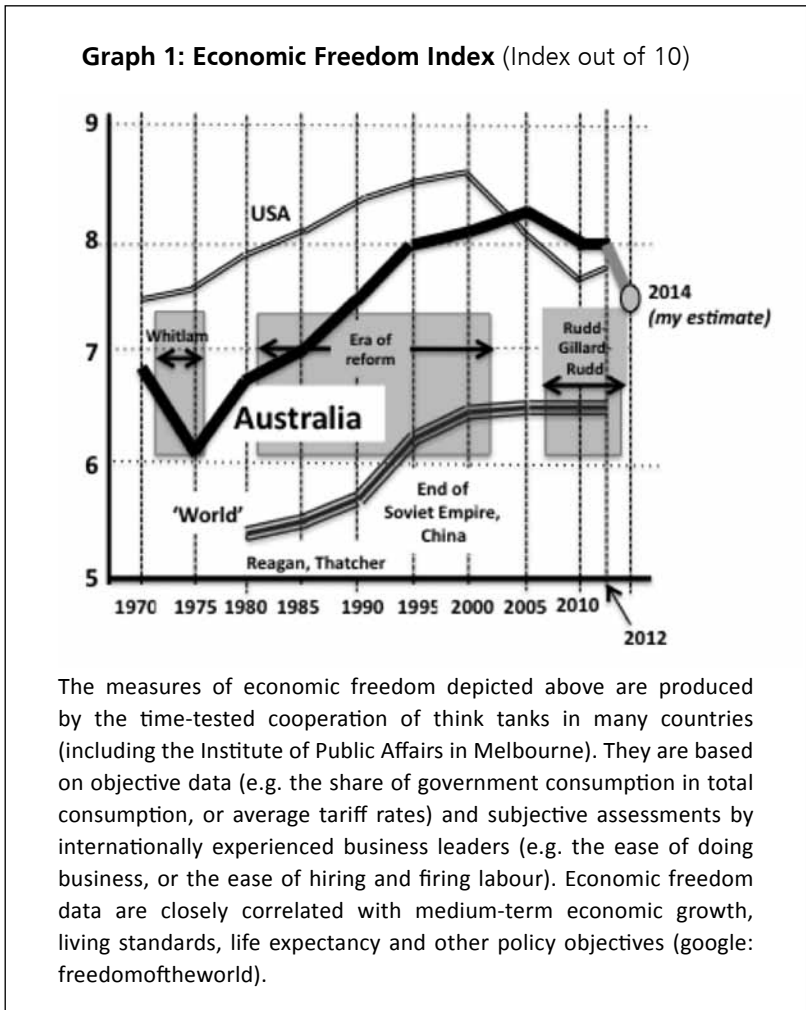
leaders see little need for arduous reforms, neither does the wider public accept short-term pain for the sake of long-term gain. This is a harmful political reality at a time when flexibility of work would be at a premium to address the sea-change in the growth climate.

Ill-prepared for the End of the Latest Growth Wave

The newly elected Rudd-Swan administration may have been surprised by the ‘global financial crisis’, but—led by short-termist economic thinking in Treasury—quickly rediscovered Keynesianism. In any event, big Keynesian spending was probably in the ALP’s DNA, despite the massive failure of the Whitlam-Cairns experiment with fiscal-monetary expansionism. The messages from the IMF and OECD, and in particular what was discussed at the G-20 (a cartel of high-taxing national governments), reinforced the swing away from supply-growth policies and microeconomic reform to seemingly facile macro-mechanic interventions. In reality, the massive spending packages had not as much impact as is claimed. After all, Australia’s financial system was in good shape and the China demand, combined with massive capital investments still in the pipeline in 2008-09, were much more decisive than the ‘watering can’ of public expenditures to avoid a sobering-cleansing recession after so many years of uninterrupted growth. We did not get the recession we ought to have had.

Now we know the major legacy of Rudd-Swan’s prompt, massive and sustained stimulus. It has entrenched a cultural illusion that one can spend-spend and interfere with private producers. This has reinforced in many minds an adherence to an ‘entitlement culture’ and claims mentality. In other words, it has infantilised many about the economic realities of life and reinforced the social attitudes that tend to prolong Kondratieff downturns. As Schumpeter in the 1940s–50s, Daniel Bell in the 1970s, and recently Benjamin Friedman argued, uninterrupted high-income complacency breeds societal forces that hinder future growth: they promote defensive-protectionist policies towards the hostile outside (e.g. China bashing), and—inside—a redistributionist ‘entitlement culture’

(i.e. disrespect for individual property rights and self-responsibility). This is at the expense of encouraging and admiring entrepreneurship —the opposite of what facilitated the emergence of capitalism (Mokyr, 2009; McCloskey, 2010). The later Howard-Costello administrations had shown limited intestinal fortitude (or intelligent far-sightedness?) to complete the reform agenda and pursue economic freedom while the good times lasted (Graph 1).



The measures of economic freedom depicted above are produced by the time-tested cooperation of think tanks in many countries (including the Institute of Public Affairs in Melbourne). They are based on objective data (e.g. the share of government consumption in total consumption, or average tariff rates) and subjective assessments by internationally experienced business leaders (e.g. the ease of doing business, or the ease of hiring and firing labour). Economic freedom data are closely correlated with medium-term economic growth, living standards, life expectancy and other policy objectives (google: freedomoftheworld).

The socio-psychological predicament of the current ‘crisis of capitalism’ was also reinforced by the Gillard government’s Left-Green opportunism and a degree of vitriol in public discourse unbecoming a civilised nation such as ours. The purpose was not to save the planet, but to secure political power and redistribute income, which was in any case assumed to rain like manna from heaven. The Rudd-Gillard-Rudd administrations forgot the lessons that had inspired the Hawke-Keating reforms, possibly because Australia seemed rather recession-proof thanks to the China boom (which had in the first place been facilitated by Hawke-Keating reforms) and the solid fiscal/financial inheritance from Howard-Costello.

A recession post-2008, which might have done some long-term good, would in any case have been mild, thanks to the still high export demand for minerals and the investment demand that was still in the pipeline. A recession would no doubt have made us more interested again in economic growth (Bates, 2014, pp. 4-5). Now, that missed opportunity does much to prolong the current Kondratieff downswing in Australia: Necessary reforms are obstinately opposed by special interest groups, the media and opportunistic politicians. On top of this, we now of course also have a costly legacy of public debt at a time when many baby boomers are leaving the workforce with expectations of a comfortable and partly tax-funded retirement, when health-care costs are rising at an accelerated pace, and major infrastructure investments are overdue.

To sum up: The reform era of 1983–2003 focused in essence on an active, pro-producer supply-side policy. Under Hawke-Keating, it was uneven (exempting big government and big unions); under Howard-Costello it then became gradually more comprehensive. The reform momentum petered out around 2003, because the China terms-of-trade windfall facilitated ‘easy growth’ and made political elites and the wider population complacent. From 2007 to 2013, the ‘progressive’ policies under Rudd and Gillard were in reality reactionary; they are now having a lasting deleterious impact on economic freedom, i.e. the underlying institutional conditions for growth (Graph 1). There is probably no need at this point to elaborate on the fact that economic growth and job creation are positively

correlated with the degree of economic freedom (i.e. secure private property, expedient regulation of the uses of private property in capital, labour and resource markets, as well as small government).

The central political challenge is now to restore and enhance economic freedom by decluttering the regulatory landscape.

Important Differences between the Post-2008 Slowdown and Its Predecessors

Not only does history never quite repeat itself, but—when compared with the 1970s—the current predicament is also complicated by a number of troubling, novel circumstances:

- a) *International challenges:* Whereas the 1970s were a time of nuclear-armed, but realistic super-power truce, the global scene in the 2010s is much less stable and predictable: there is a new political and economic rivalry between a resurgent, self-confident China and the US-led West.⁸ There are new challenges from fundamentalist Islamists—who reject the freedom to which most in West and East aspire—and from an insecure, aggressive Russia that sees the United States and NATO as decadent enemies. There is the likelihood of nuclear proliferation, and with it a hard-to-assess possibility of nuclear conflict. There are growing migration pressures from Third World countries whose corrupt political and industrial elites fail to foster the conditions of economic progress their increasingly well-informed populations demand.
- b) *Mass immigration may endanger our valuable social capital:* As a result of legal and illegal mass immigration, countries in Old Europe, North America and Australasia face a new type of internal fractiousness: Growing numbers of new arrivals in our midst do not share the tacit, underlying values of our culture and the institutions that ensure our societies function

⁸ Historians have noted the similarities to the economic, later military, tensions during the Kondratieff slowdown of the late nineteenth century, when an ascendant, self-confident Germany challenged the established powers of Britain and France.

efficiently. Uncontrolled mass immigration undermines the essential 'cultural capital' of shared attitudes and institutions. It may diminish trust—a great cost saver—and drive up the costs we have to incur when doing business with others.⁹ We now have to absorb immigrants who hail from dysfunctional societies with no freedom of speech and no understanding that freedom is a precious but vulnerable asset that has to be cultivated from generation to generation. Indeed, many of them fail to understand freedom is essential to the very material comfort that they want. In particular, we must also realise one of the major achievements of Western civilisation is the separation of religion and government, the secular state.¹⁰ Immigrants who hail from a cultural tradition where religious and political leadership should go together will have to learn that, in Australia, everybody has to obey the rules set by our legitimate, secular governments. And the authorities must insist on the equality of all before our laws. International experience shows that tolerant, open societies become xenophobic as soon as immigrant groups form no-go zones the police and judges tolerate. In short, it is not a matter of how people dress, but of our legitimate governments upholding constitutional law and public order. It is well established that some infractions of the law, if tolerated and excused, breed general lawlessness and community perceptions of declining public safety (MacDonald *et al.*, 2007). This also applies to illegal immigration. Advocates of receiving illegal aliens with open arms tend to overlook this consequence, and instead try to tell us that immigration is a welfare service that we owe the rest of the world. However, an immigration policy that inspires public confidence has to be shaped so it serves the interests of the

⁹ It has to be realised that in a modern, highly specialised economy, about half of all costs of producing and distributing the national product consist of transaction costs. The pace and level of development are therefore to a considerable degree the consequence of cost-saving institutions, i.e. expedient rules of the game.

¹⁰ The secular state emerged from centuries of bloody wars of religion in Europe. It is anathema to Muslim doctrine, which demands the integration of religious and government leadership. On this issue, Australians must not make any concessions.

incumbents, who have built the decent, honest society that is a valuable property all Australians share.

Mass immigration of poorly qualified, culturally diverse people is also likely to lower the average skill basis, an essential ingredient in economic growth. Some of this negative is probably compensated by the greater diversity of talents and inspirations for entrepreneurial solutions immigrants bring to the country. If, moreover, immigrants earn on average lower incomes than incumbent residents, they are likely to draw more from Australia's redistributive welfare system and thereby aggravate budget problems. Policy makers are therefore now more challenged than ever to create clear rules of economic freedom that ensure diverse people can interact freely, productively and peacefully: free markets foster *catallaxis*, i.e. the peaceful, productive interaction that leads to new bonds and friendships. They promote self-responsibility, social harmony and the voluntary integration of newcomers.

Australia's past experience with immigration and the evolutionary impacts of newcomers on Australian ways have been positive. However, with recent changes in the composition of immigrant flows and the reluctance of some newcomers to integrate, it will be essential to convince ordinary Australians that their traditional, time-tested way of life will not be altered dramatically. If we fail, xenophobia will become a serious political problem.

For all these reasons, Australia, like any other sovereign nation, has to insist on the right to choose who will join our community.

- (c) *Social media complicate consensus*: Social diversity and fractiousness are also facilitated by the new social media. The era of big government, big media opinion makers, big unions, and big industry is over. Crowd-funding has made it possible for actors to proceed without dependence on big banks. Hierarchical opinion shaping is replaced more and more by

spontaneous horizontal exchanges of ideas. Social media have also given rise to a great variety of single-issue groups that agitate for biased, short-sighted and antagonistic actions in pursuit of specific outcomes with no regard for the common good. It seems a particular type of fellow citizen — the discontented web surfer — is dominant and the active, contented doers are underrepresented, which results in a hypercritical, often utopian bias. The mass media often take their cue from the net, rather than reality. Opportunistic politicians and bureaucrats have learnt to use social-media activists to promote their own objectives.¹¹ Neither influence favours fact-based, objective policy discussion. The rapid spread of electro-media is also changing the tenor of social interaction. There is less and less direct personal contact, during which disrespect and rudeness tend to be corrected, and more enraged, disrespectful broadcasting of the opinions of essentially lonely people and factious internet campaigns by faceless activists such as *GetUp!* and *Attac*.

Another consequence of the rise of social media is that traditional political party loyalties dissolve and democratic government is challenged by obstinate ‘crossbenchers’, new ideological opposition parties and anarchists. Political leaders need to respond by trying to implement more modest programs, ones they are able to deliver successfully. Short-sighted tacticking and foul political compromises have become more costly. Ambitious political programs are bound to fail. Political and bureaucratic overreach to ‘conquer’ new fields of collective activity tends to backfire and only leads to popular disillusion with government. There are also new dangers in cutting back the scope for individual liberties for the sake of collective security. Political leaders therefore have to uphold

¹¹ The frequently used term ‘non-government organisation’ (NGO) is spin-doctor speak. It should be replaced by ‘single-issue lobby group’, because most ‘NGOs’ are alimented by copious government grants and act as extensions of government bodies, doing the bidding of bureaucrats and politicians in advocating more government.

time-tested fundamental values that can unite the majority of citizens, including economic freedom, freedom of speech, and of assembly.

- (d) *Difficulties in obtaining shared knowledge and a sense of belonging:* The communications revolution has not only made the flow of information, capital, high skills, goods, services and enterprises cheaper and easier (globalisation), it has also led to a glut of information, yet a paucity of knowledge; i.e. the systematic, logical ordering of information. Many citizens are confused and bemused. In this situation it would be beneficial if clear intellectual leadership by educators, social commentators and political leaders helped the wider public make sense of new trends, and cultivated a body of shared knowledge. Critical public discourse on fundamental values and ethical norms needs to underpin this development. This requires not so much national political leaders with the intellect and authority to project cohesive, trusted conceptions, as a civic system in which free associations (religious organisations, clubs, small local assemblies) can offer individuals a sense of belonging and security. Quality media, even academia, might play a greater role in interpreting the changing world.
- (e) *Demographic challenges:* The Australian population is ageing, though less rapidly than in Old Europe and Old Japan. The conclusions of the Treasury's Intergenerational Reports need to be taken seriously, not only to reshape socialised welfare provisions, but also to influence the rules that govern the private, voluntary provision of education, housing, health care and retirement in old age. As we will discuss below, the welfare state—which successive opportunistic parliaments have put in place and which an entrenched lobby industry defends—is no longer tenable.

While Australia's natural population growth has been gradually decreasing (though more slowly than in Europe and, more generally, Western countries), any long-term strategy for

Australia must take account of the fact that the share of the world population in our wider neighbourhood will continue to grow. By 2020, 30% of the world population will live in East Asia, and another 26% in South Asia. Once-remote Australia will be closer to the world's population centre of gravity.

- (f) *The changed nature of work*: One key socio-political change, which is not unique to Australia, has been a shift in the character of the union movement. The combination of a refusal to deregulate labour markets since the Hawke-Keating era combined with the new openness to capital and products destroyed many industrial jobs. The unionised workforce in industry shrank. Political Labor lost much of its traditional industrial base. There are now fewer production workers who have a direct interest in thriving industries, i.e. a long-term interest in a productivity-oriented, competitive IR policy. Political Labor under Rudd-Gillard-Rudd therefore had to seek a new base: public-sector unions and the new environmental-elitist class, pursuing a 'Lucky Culture' (Cater, 2013). Most members of public-sector and other service-industry unions do not experience the direct, global competitive pressures manufacturing, agricultural and mining workers now probably accept as given. However, the new Left should beware of a dangerous illusion, for in reality all Australians are now exposed indirectly to international competition. Public administrators and regulators in this country now compete indirectly with their counterparts in national and local governments in Taiwan, Shenzhen or Singapore to attract or retain tax-paying, mobile producers. This also holds true of many service industries (once defined as the 'non-trading sector'), which are now internationally traded thanks to the global communications revolution and cheaper travel. Australians can now buy hip replacements and tooth implants in Asia; many secretarial, accounting and legal-administrative services are now delivered overnight to Sydney over the internet from Manila or San Francisco. Regulators in local governments,

who can have a major impact on production conditions, often still ignore how mobile service providers have become—and trigger the relocation of workplaces overseas.

- (g) *Government networks resist economic globalisation:* Globalisation began with the growing international mobility of production factors, capital, enterprise, industrial knowhow and goods in the 1960s. But over time this kind of ‘primary globalisation’ has led to a ‘secondary globalisation’—the fight back of largely immobile production factors. Thus, environmental lobbies form ‘green’ global networks that supply tactical ideas and practical aid from high-cost welfare states, who are competitively on the defensive (e.g. Germany), to locations that have retained competitive advantages thanks to more permissive environmental and regulatory policies (e.g. in the Third World). The ‘Environmental International’ now advocates policies to protect regimes that are handicapped by self-inflicted costs of social welfare and regulatory density (e.g. the EU). One aspect of the ‘secondary globalisation’ of political elites has been the growing cartelisation of high-taxing governments in groupings such as the G-20, UN bodies, and the OECD. Governments under pressure to compete globally for mobile capital and enterprises are now increasingly coalescing to evade such competitive pressures by ‘harmonising the rules’. This refusal to engage in competition by institutional innovation (reform) is not only deleterious to economic growth and job creation, but also adds to spreading popular disillusion with democracy: relevant decisions are nowadays taken further and further from the informed, interested citizen. International authorities, which meddle in our daily lives, are directed by unelected, unknown bureaucrats. Freedom suffers, civic discontent rises and the familiar, time-tested model of democratic governance based on national loyalties and identities loses influence (Klaus, 2014). The growing democratic deficit adds to people’s fundamental sense of insecurity, which now prolongs and deepens the Kondratieff downturn.

- (h) *Uncertainty about energy*: One core battlefield for transnational (i.e. undemocratic, non-market) control has been energy policy. The theory—to my mind as-yet unproven—of global warming is being used to scare populations and governments into actions that drive up cost levels and weaken international competition. Global controls on energy uses may become a potent limitation of individual freedom and a driver of a prolonged crisis of capitalism in the mature industrial countries. Rising energy costs are already forcing the re-evaluation of time-tested methods of production, a pervasive depressing factor in the present slowdown. Fortunately, they have also led to a spreading popular realisation that the cost handicaps of ‘saving the planet’ will further weaken the established, rich industrial locations vis-à-vis new, non-compliant industrial producers. Australia has become a model case for how the democratic-competitive backlash can overturn cost-inflating energy policies. Energy-rich Australia cannot afford to handicap its international competitiveness by giving up one of its most powerful competitive advantages, namely cheap energy, if it is to resume vigorous growth. Indeed, mobilising cheap and clean sources of energy must be a core driver of reviving Australia’s productive potential and competitiveness. This may well include a partial shift from abundant cheap hydrocarbons to new, safer nuclear options (Archibald, 2014, pp. 137-173). Here is a major challenge for political and intellectual leadership, because civilisation and industry throughout history have flourished when cheap and bountiful energy resources could be tapped, and waned when energy ran out.
- (i) *Governments and unions as support organisations in global competition*: The IT/communications revolution and the openness of globalisation have thus added punch to the growing global competition Australian workers are facing. It has enhanced the premium for high intellectual skills and good institutions. The sooner union and government leaders comprehend this and begin to act as support organisations for

internationally competing, Australia-based producers, the less painful the new exposure to international competition will be. At a time when Australian producers are facing a massive new exposure to overseas competitors thanks to recent free-trade agreements with the United States, China, Japan and South Korea, it would be costly if certain interest groups were allowed to act as if they were ‘waterproofed’ against economic reality.

- (j) *The failures of demand management:* Different from the first, post-1973 oil crisis, when governments (including Australia’s) soon realised that Keynesian demand expansion in a Kondratieff downturn with inelastic supply conditions were futile (Burton, 1986), the onset of the latest down-wave has been met with a surprising revival of discredited Keynesianism. A generation of economists, who were steeped in Keynesian macroeconomics in schools and universities and are now at the helm of finance ministries and central banks around the world, colluded with politicians to promote massive, debt-financed public spending programmes. In Australia, the post-2008 fiscal stimulus produced, first and foremost, an unusually rapid turnaround from Commonwealth fiscal surpluses to unsustainable deficits — unsustainable because they are driving up debt service when the mining boom has petered out, economic growth has slowed and the population is aging.

At the same time, monetary policies in many countries have become extremely expansionist, inflating bank balance sheets (printing money). The result — which standard monetary theory predicts — namely a general rise in price levels, has so far not eventuated. The reasons for this are the recent record of low price inflation (and low inflationary expectations), the drop in aggregate demand, the arrival of cheap products from China on world markets, and a tendency of the banking sector to hoard additional liquidity. The unprecedented expansion of global paper money supplies is, however, already contributing to an inflation of asset values (shares, houses), often a precursor of general inflation. Many now

question the capability of central banks to rein in money supply when general price-level inflation kicks in. The latent fear of future inflation is another factor that prolongs the Kondratieff slowdown.

The Way Forward: Cultivate Economic Freedom

The way forward is to resume comprehensive and cohesive supply-oriented policies to remove obstacles to productivity and to combine these measures with fiscal and monetary discipline to prevent price-level inflation (i.e. the expropriation of savers and payers of progressive income taxes). The first question for policy makers at all levels of government should always be: how does a proposed measure affect private job creators and workers? Governments can do much to: inspire confidence by fostering a stable order of citizen-friendly, competition-fostering institutions; assist with infrastructure development; foster the formation of skill and physical capital; and pursue a balanced and sustainable policy of resource mobilisation. But—except when bloating public-sector employment—they do not create jobs. Producers and workers do.

Supply-side reform and producer- and job-supporting economic policies require a holistic approach to foster economic freedom, which in turn requires a considerable number of policy changes to free up the markets for production factors, such as labour, skills and capital, and to make production structures flexible and responsive to evolving circumstances. To my mind, the list of necessary reforms should comprise the following measures:

- (a) *Abstain from featherbedding losers*: Subsidies and preferences for well-established, but shrinking industries, occupations and regions are direct impediments to growth and the pursuit of happiness. They must be systematically abandoned, whatever political opportunists may be tempted to do.
- (b) *Curb redistributive political instincts*: The new Left is all about spending and redistribution. It pays little attention to the

conditions of production by enterprise and workers. A mature electorate understands you cannot distribute what has not been produced and that redistribution policies undermine the incentives to produce. Political parties should trust that mature citizens understand the necessity to be productive.¹²

- (c) *Free labour markets*: A key necessity for rapid, pro-active structural change and enhanced international competitiveness is that labour markets are responsive and flexible. The re-regulation of industrial relations by the Gillard administration was a step backward, and the pusillanimity of the Abbott administration will prove costly in terms of future job creation. The Australian tradition of regulated, quasi-judicial IR policy—a remnant of the old Settlement—needs to be jettisoned.

Although overall productivity is more than labour productivity, flexible work practices serve to enhance the productivity of all production factors. Labour market reforms are therefore a key to turning around the poor productivity trends of recent years. It must be realised that the competitiveness of Australian workplaces depends on the joint efforts of workers and employers to reduce the unit costs of production. This could be done by lowering wage rates—an unattractive option, that would reduce living standards and consumer demand and raise social tensions. The attractive alternative is to raise productivity by all concerned cooperating to enhance work practices—a win-win option for workers and capital owners. Much could be gained if employment policies were bundled together with a government department whose function it was to foster international competitiveness and economic growth.

¹² The social-democratic model of visible-hand redistribution is bankrupt and came with numerous deleterious side effects. This is more evident in the mature welfare democracies of Western Europe than in Australia. To discuss these would go beyond the frame of this paper, but they need to be made more widely known (see Kasper, Streit, Boettke, 2012, 'The Failures of the Social Democratic Experiment', pp. 352-361).

- (d) *Integrate immigrants*: Immigration has played an important role in supplying labour and human capital to Australia's economic development. With a bigger share of overseas-born residents than anywhere bar Israel, Australia has benefitted from the evolutionary influence of newcomers and has arguably become a culturally and economically more attractive place in the process. Due to the ageing of the Australian population and global population pressures, substantial immigration must be allowed to continue. A relatively thinly populated country like Australia would simply not be able to be home to a lesser and lesser share of mankind (Kasper, 2002). However, for the reasons mentioned above, immigrants must be expected to integrate; i.e. try to embrace the underlying values of Australia as a free, secular and open country, where discrimination and class distinctions are frowned upon. Since the end of the White Australia policy, ours has become a *multi-racial* country. It does, however, *not* follow that this should be a *multi-cultural* country (MacDonald *et al.*, 2007).

The potential supply of new Australians—people who wish to share and add to the cultural, skill and knowledge capital of this nation—far exceeds the capacity of our society and economy to absorb newcomers. For this reason, and in the interest of all incumbents who have built Australia's good infrastructures and its attractive social and legal institutions, elected governments must retain the right to select immigrants, including to some extent even when accepting humanitarian cases, such as genuine refugees. Policy makers who are convinced of the merits of selective immigration, and the need to integrate newcomers into the basic public mores of Australian society, may be guided by analysing rates of intermarriage and incarceration of various immigrant groups.

- (e) *Cost-effective education and skill formation*: Education and skills are important ingredients in fostering a productive, egalitarian and open society. If lifetime subsidies for not working were to

become less easily available, young people would have more incentive to choose careers that promise lifetime income security and secure, rewarding work opportunities. The demand for costly higher education needs to be rationed by a co-payment, for example financed through repayable education credits such as exist under the HECS regime, or credits earned by high academic performance. TAFE-level education and training must be guided solely by the requirements for job skills and must be rid of reactionary trade union controls.

- (f) *Smart specialisation*: Australia has a future in high-tech innovative manufacturing in specialised areas, for example in additive manufacturing, medical technology or specialised food production. There will be more than three billion more people in the middle class of the world in 20 years. This will offer opportunities for Australians with cultural connections to these rising middle classes and the ability to sell our tried and tested ways, our goods and services, for which there will be high demand. That the creative-innovative potential of our diverse society is superior to homogeneous traditional societies in East Asia and Old Europe is increasingly recognised by international firms who locate research and high-end production in Australia. Australia's manufacturing industry has made progress in the painful transition from mass production for protected domestic markets to specialised, export-competitive production. Whether this will end in further de-industrialisation or revive manufacturing depends on deregulation, tax levels and workplace flexibility.
- (g) *Simplify the rules for saving and investment*: Capital formation requires a high savings rate, which is hampered by distorted low interest rates. Interest rates might even become negative in real terms as and when inflation takes off. Capital formation of course also depends on investment demand. Investment—a key variable in the growth equation—is greatly prejudiced by over-regulation. Many potential profit opportunities are not

taken up because local, state and multiple federal regulations impose discouraging obstacles. Owners of financial capital are loath to commit their property for years in the form of fixed assets (investment), when regulations constrain what they can do to derive profits from their investments and when they must fear becoming hostage to government and organised labour monopolies.

As of 2015, many observers steeped in macro-mechanic modelling but knowing little of investor psychology seem surprised private non-mining investment in Australia is not taking off despite low real interest rates. They should not be surprised: with dense regulation, growing paperwork and cumbersome approval processes, as well as re-regulated labour markets, investors are understandably reluctant. Add to this fears of rising tax burdens caused by previous stimulus and it becomes plausible many entrepreneurs will find it easier to invest elsewhere. Capital formation benefits from a stable, simple regulatory order, but it is not promoted by anarchy. Investment is hampered by see-saw policies after each change of government. A shared political consensus about promoting the conditions of long-term capital formation could become a growth asset—given that Australia has low incidence of political corruption, a good rating on the rule of law, and a democratic and lively civic culture, at least compared to Asian nations.

- (h) *Openness to foreign capital*: Foreign investment has played a major role in making this remote continent one of the most affluent areas in the world within a mere 200 years. It has not only augmented financial capital, but human capital, knowledge and enterprise. Protectionist lobbying by incumbents against foreign investment therefore must be resisted; and deals that open the economy not only to trade in goods and services, but also to overseas enterprises and investments must be welcomed. Location Australia is but one place in the open world economy. It competes with everyone else to attract resources of physical

and human capital to promote productivity and prosperity. Petty fears of foreign domination do not seem justified, as long as we have a self-assured government committed to enforcing the rule of law. Moreover, many foreign investors have become loyal corporate citizens during Australia's history (think of originally London-based banks and mining companies). Concerns may be justified where major foreign investors are state-owned foreign firms. Here, scrutiny by an independent Foreign Investment Review Board (FIRB) seems in order. However, since time is money, FIRB applications must be dealt with expediently. Lesser private investments by foreigners— for example in apartments— should be liberalised, since such a policy amounts to job creation in a kind of export industry.

- (i) *Foster abundant energy*: Natural resources, including energy sources, constitute a major competitive advantage of the Australian economy. International political criticism that Australian industries produce more than average per-capita CO₂ emissions overlook the fact that Australia exports energy-intensive products, such as aluminium. These criticisms have to be rejected for what they are: political attempts by ailing industrial countries to handicap the Australian competition. Beyond that, our growth potential suffers from a massive, politically motivated 'green' anti-growth push. Yielding to it would be extremely costly to the future prosperity in our energy- and resource-rich country. Much would be gained if 'green' policy proposals were systematically scrutinised by experts for their employment and growth implications. Let us become not only energy self-sufficient, but enhance our position as an exporter of energy and energy-intensive goods and services. In an era when energy costs in some parts of the world can be expected to rise again, fracking and coal liquefaction will doubtless offer net benefits for our prosperity. One solution to advance gas extraction would be to give landowners who accept gas well on their land full private property rights to their land and all that rests below. However, in most places this would amount to a fundamental change in long-standing

property laws, so landowners should be given a clearly defined, substantive material benefit from gas extraction on their land by other arrangements. Whatever the solution, state and federal taxation of gas extraction urgently needs to be based on definitive, long-term rules. One non-negligible benefit of the West regaining energy security is that lower energy imports affect politically troublesome—and even hostile regimes—such as Russia, Venezuela, Libya, and the Middle East.

Should alternative sources of energy (wind, solar, wave, geothermal) indeed become cheaper to tap than conventional carbon-derived ones, rational market decisions will naturally shift reliance to these new sources. It is in the interest of economic growth and job creation that the use of these resources is not subsidised (as is now the case at great cost to public budgets and private households), nor that conventional power generation is politically protected and subsidised [point (a) above applies].

- (j) *No 'primacy of politics'*: Government is—as stated before—the provider of an important production factor: the (external) institutions created by legislation, regulation and rule enforcement. In the age of globalisation and enhanced mobility of capital and enterprises, arrogant political notions of the 'primacy of politics' have become costly.¹³
- (k) *To protect, but also produce and redistribute?* When discussing the role of government in a modern free-market economy, we should begin by asking: Where is collective action necessary and of advantage? What are the functions of government? In the present situation, there seems to be great merit in rethinking the functions of government *ab ovo*: Is it to fulfil more than the traditional protective function—the protection of life, limb, liberty and property—from external aggressors and internal violators and fraudsters? What elements of the

¹³ The concept was first advocated by Robespierre in the French revolution, and is now popular not only among socialist leaders, but also many conservative political leaders.

traditional productive function (e.g. providing roads and other infrastructures) are nowadays better looked after by governments giving equitable access to privately and competitively produced goods and services through tax-funded subsidies (e.g. education and accommodation vouchers, child-care subsidies etc.)? How to pare back the third traditional function of government: the visible-hand redistribution of market-generated incomes and wealth, which has been the growth industry *par excellence* of the twentieth century?

It is obvious that a resurgence from the current pessimist slow-growth predicament requires more scope for private initiatives, i.e. less government at national, state and local levels. In this respect, Australians must not take the regulation-encrusted, big-government nations of Old Europe as the benchmark. After all, we are a frontline state of the Western market-economy model on the open, competitive Pacific side of the world, where we face young, ascendant and ambitious regimes and populations hungry for better living standards. Our new free-trade agreements offer the promise of growing prosperity, but only if private Australian enterprise is not encumbered by big, intransigent (federal, state and local) governments.

Given the persistent and rising public-sector debts in the wake of the 'stimulus' profligacy of 2008–2013, the political limelight has now been directed onto tax reforms. Many among the political elites and in organised single-issue pressure groups now call for raising revenues—e.g. a higher GST or taxing superannuation savings more—to meet rising expenditure demands. Some of the commentary on taxes indeed appears to be based on the notion that everything below a 100% tax on private income is a cost to the government. This attitude needs to be rejected.

- (l) *Simplify taxes*: There is a need for simple, egalitarian taxes and fees. The question needs to be asked anew how the

necessary expenditures are to be financed, but only *after* the functions of modern government have been agreed upon. Tax reform must start with a scrutiny of government functions. Costly-to-administer petty taxes and tax regimes that inflict high compliance costs should be abandoned in favour of comprehensive, broad taxes on incomes, transactions and end uses that can be administered at low cost. High and complicated, prescriptive taxation undermines people's productive incentives.

Overdue tax reforms must be revenue-neutral overall. A higher level of taxation and public spending would just push more economic activity overseas and constrain the space for new entrepreneurial engagement. It must be kept in mind that the high international mobility of capital and firms ('quicksilver capital') makes it near-impossible to raise taxes on profits and high incomes. Higher tax burdens would therefore impact predominantly on consumer households and probably be regressive, which would prolong the economic slowdown. Besides, I know of no case where a country has raised productivity and mobilised a new supply potential by raising taxes.

A simplification of the income and corporate tax rules — and harmonisation with the tax treatment of superannuation contributions¹⁴ — would also have the beneficial consequence that more interactions of taxpayers with governments could then be done expediently over the internet. Finally, great care should also be taken by government leaders to insist that all taxation is based on the law. Populist appeals to 'fairness' and ill-defined ethical norms, however understood, and hectoring of internationally mobile producers must be avoided.

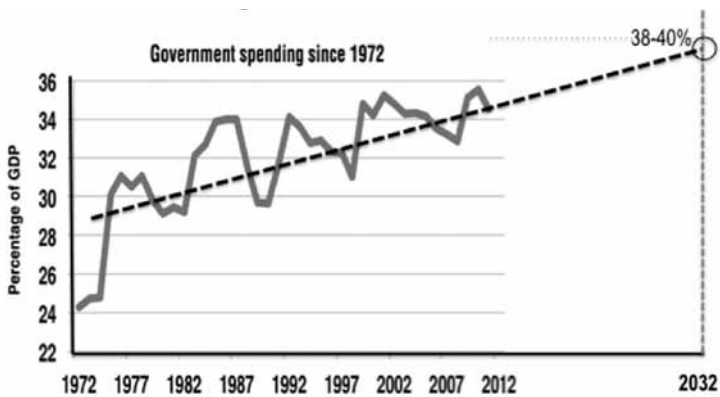
¹⁴ In discussing the existing tax regime, the differences between marginal income tax rates and the flat superannuation contribution tax deserve scrutiny. One way to reduce the differences would be a flatter income tax schedule; another a design of superannuation contribution taxes that relate them on a sliding scale to (top) income tax rates.

(m) *Curb budget deficits*: Too many of our fellow citizens live in fiscal cloud-cuckoo land: federal and state budget deficits (with the federal alone running deficits of close to \$50 billion a year) have to be reined in by cutting spending. Federal government spending has risen from 22.6% of GDP when the Howard government left office—having tried in vain to buy the next election—to more than 26% at present. Taking into account taxes and charges by all governments, Australians now have to put up with a government burden of 33.5%. This is in line with the average of high-taxing OECD countries, but considerably higher than what our competitors in the Asia-Pacific region are paying.

The long-term trend to more and more public spending cannot continue. A linear trend would not even be brought about by much additional discretionary expenditure, as growing interest payments will add considerably to the burden, not least because low real interest rates will not last. If past habits of Australian governments to claim a growing share of the national product are not abandoned, the generation born now, who will begin active economic life by 2032, would begin by facing a burden of government of 38-40% of gross domestic product, comparable to that in the stagnant, ageing societies of Old Europe and Japan (Graph 2). The slow-growth phase of the Kondratieff cycle will then be prolonged.

A paring back of all levels of government to no more than 30% of gross domestic product (better still the 25% that was considered normal in the Menzies era) seems feasible. It will be essential (as the Centre for Independent Studies has often outlined). This target would of course be much more easily attained with a growth rate of gross domestic product of, say 4% p.a. in real terms than with one around 2%. Demand-side measures such as curbing public-sector spending therefore always need to be discussed in conjunction with supply growth strategies, as discussed here, to make practical political sense.

**Graph 2: Government Crowding Out Private Initiative:
An Unsustainable Trend**



Source: Centre for Independent Studies (*passim*)

- (n) *Foreswear Keynesian notions*: Governments should also forswear fiscal-monetary demand manipulation that may fool us in the short run, but postpones real solutions (Burton, 1986). This may be politically hard, since Keynesian debt-making and monetary expansionism have turned us — as Hayek said — into ‘monetary heroin junkies’.

The Reserve Bank Act 1959 should be rid of the confusing multiplicity of objectives. It dates from a long-bygone era. The monetary policy of an independent central bank can achieve only one goal, and the assignment should be price-level stability. Central bankers certainly cannot print jobs.

- (o) *Develop more urban housing land*: Australians experience price rises in housing mainly as a consequence of regulatory state and local government limits to land development. A demand-side solution — proposed by the Reserve Bank of Australia and politicians — would be to impose selective controls on credit for intending house buyers. The supply-side solution makes more sense: tackle the regulatory obstacles (by states and greedy local councils) to land development.

- (p) *Protect private property from political activists:* Leaders and single-issue lobbies must be made to realise that demanding more and more redistribution of incomes and wealth by the visible hand of government (taxing, subsidising) just white-ants the core protective function of government, in particular the protection of private property rights. Let us be clear that governments cannot do both: protect private property and massively confiscate and redistribute. For this reason alone, the trend depicted in the above graph is unsustainable. Budget discipline—and conveying the need for it to the electorate over the heads of noisy single-issue lobbies—requires leadership and consistent action. New, costly programmes like the now (temporarily?) abandoned paid parental leave scheme or the ill-conceived medical research fund (“picking winners”.... *how do they know?*), serve only to confuse the electorate and encourage opposition. Elites at the centre of politics often overlook that private citizens are engaged in busy lives of their own and are simply not interested in complicated, activist political games. Political leaders fail when they propose a new policy initiative a day during election campaigns and send out contradictory signals like cutting budget deficits, but launching costly new spending programmes. We, the people, are bemused, confused and turn cynically against parliamentary democracy.
- (q) *Privatise services, but assist with access:* An important insight of public-choice economics has been that governments need not produce goods and services with government-owned means of production in outfits managed by risk-averse, cumbersome public administrations. Government bodies tend to act as monopolies, which they administer in typically risk-averse ways. By comparison, competing, risk-taking private enterprises, which are coordinated in markets, produce many goods and services more cheaply and in more consumer-friendly ways.

Governments should therefore confine themselves to giving all citizens access, setting standards and controlling quality (Demsetz, 1970). A better-educated citizenry that is treated

by authorities as mature and responsible, is capable of making informed choices, also thanks to information now accessible over the internet. The delivery of education, health, subsidised housing and other services can be made much more cost-effective by vouchers that may be coupled with some user co-payments (as, for example, the successful Swedish reforms of the last decade demonstrate). The self-seeking political agitation against privatisation by featherbedded public-sector unions, which have ever so often helped socialist and social-democratic parties into government, has to be exposed for what it is: selfish lobbying against the interest of small government in the service of the citizens. As post-war British performance has shown, the see-saw between nationalisation of public services by the Labour Party, privatisation by conservative governments and (re)nationalisation by Labour should convince the electorate and parties to desist from such disruptive, counter-productive changes in the underlying economic order.

- (r) *Rational use of defence dollars*: The task of reducing the burden of government will be complicated in the next few years by the fact that external and internal defence—an essential part of the protective function—will possibly become more expensive, given new global threats, even if Australian governments become more reluctant to engage in far-away places to prove they are reliable allies of the United States.

Given pressing budget strictures (and the realisation that this island continent cannot be industrially self-sufficient), defence planning has to extract ‘maximum bang from the buck’, buying big-ticket systems from overseas suppliers who enjoy scale economies and produce systems that offer inter-operability with our allies. Defence acquisition is neither a suitable tool for job creation nor for regional development. Defence industry support will, however, be needed—even at a cost to taxpayers—to maintain and repair weapons systems in Australia.

- (s) *Ensure Australia is worth defending*: Another important aspect of the defence of Australia relates to the question: can we ensure our country and society remain worth defending? This should not be an issue, since time-tested traditions of British institutions, modified and adapted over generations to Australian conditions, have created a free and peaceful society in which individuals and private associations have been free to develop civilised cultural, internal institutions — a great productive asset. Australians enjoy great scope to pursue their self-set purposes. We enjoy a kind of polity that old and new Australians find attractive and worth defending against aggressors. However, policy makers have to beware that their interventionist, often opportunistic actions do not destroy the fundamental good will and loyalty of citizens.¹⁵ Here, as elsewhere, we have to observe growing cynicism and fractiousness — a spreading crisis of democracy that contributes greatly to the current Kondratieff slowdown in the economy and people's spirits. Many now feel democracy is not well served by the political elites, let alone single-issue pressure groups. An example, which has deleterious consequences for the will to defend this country and invest here long-term, is the federal government's decision to retain controls against the freedom of speech (s.18c) for the sake of retaining the political support of certain immigrant lobbies ('Team Australia collectivism').
- (t) *Reform the federal model*: The greater diversity in our mass society should encourage us to re-think the growing centralisation of political decision making. Instead, there would be merit in devolving responsibility and fostering horizontal competition between state and local governments to create diverse living conditions for citizens and investors. The oft-proclaimed,

¹⁵ Students of German history can tell you the Weimar Republic, which offered deficient civil liberties, had become a plaything of organised pressure groups and powerful, poorly supervised bureaucrats, did not live on the hearts of the people. It was not abandoned with a collective shrug of the shoulders, when the challenges to its continued existence arose. The horrifying consequences are well known.

but impossible ‘ideal’ of equal living conditions throughout Australia—a remnant of the initiative-sapping, equal-outcome socialism of the original Australian Settlement—should be abandoned in favour of competitive federalism, which could serve as a powerful discovery mechanism for better administrative-institutional orders and give citizens choices (Kasper, Streit, Boettke, 2012, pp. 451-454).

Australia’s federalism has been the subject of ceaseless opportunistic tinkering since it was invented in 1901. It is dysfunctional, divisive and dishonest. There is too much duplication and overlap, which promotes unedifying posturing, blame games and fiscal irresponsibility. It is time for principled political leaders to replace it with a new model that promotes true subsidiarity and fiscal responsibility of each level of government. Subsidiarity means the various tasks of government are allocated to the level of government that can deliver the services most effectively. Where responsibilities are shared, they should in case of doubt be devolved to competing states. Only where preferences are homogeneous, the consequences of government actions are widely dispersed, and there are indivisibilities and decreasing average costs, is there a valid case for provision by the national government. Where the claims of citizens on government greatly vary between states and local governments, it is advisable to delegate that task to state or local governments.

- (u) *Fiscal equivalence fosters growth*: A rational re-allocation of governance tasks should be coupled with fiscal equivalence: the obligation that the various jurisdictions raise the necessary revenues for fulfilling their tasks. It is a great weakness of Australian federalism that lower-level jurisdictions do not have to bear the onus of financing their own expenditures by their own revenue raising and that there is no tax competition—for example by state-specific income taxes and differential rates of GST. Only when decisions about government services, their provision and their financing rest

in the hands of the same responsible agencies, will politicians face legal liability, control and risk together. Only then will we get a more rational style of collective action. Only then will state (and local) governments discover a direct interest in promoting a growing tax base and — with it — economic growth. In an open economy, fiscal equivalence would also work as a powerful brake on the fatal fiscal creep into more and more socialisation, as depicted in Graph 2.

More important still, at a time of urgent demand for new, productivity-enhancing institutions, fiscal equivalence would stimulate administrations to become creative and discover what works best to cultivate a growing tax base: competitive federalism as a discovery procedure in government—the part of the economy where innovation has been badly lacking. Successful administrative devices discovered in one jurisdiction would be imitated; failures would again be jettisoned. The same principles of jurisdictional competition can (and should be) applied by state governments to local authorities, which play a very important role in shaping the competitiveness of ‘location Australia’.

(w) *Uphold sovereignty in policy making:* To make this into an Australian success story, we must retain national sovereignty. It is important that this country’s political elites do not succumb to supra-national groupthink propagated in inter-government cartels such as the Group of Twenty, and meetings sponsored by international mega-bureaucracies such as the OECD and the IMF. Nor must they allow themselves to be manipulated by government-financed, internationalist lobby groups. The necessary political strategy to overcome the prevailing pessimism requires that we defend our national sovereignty and uphold our own precious institutional capital of good cultural habits and good laws.

(x), (y), (z) ... Readers are invited to add their own reform ideas!

This is a long list of reform measures. Some readers may dismiss them as politically naïve, outrageous and basically undoable. However, let us remember that 40 years ago, cuts of manufacturing tariffs were deemed totally undoable. If Australians want to avoid a re-run of 10 to 15 painful years of misery such as in the Whitlam/ Fraser era, they must be prepared to challenge political taboos now. The alternative is another decade of dithering and misery, until the trauma convinces a new crop of political innovators to embark on a genuine reform strategy.

Rational supply-side policy and the fostering of a liberal economic order require a united and well-connected political voice, one preferably represented at the Cabinet table. A Department of the Economy, Trade and Competitiveness would seem to be the right addition to the Federal Cabinet and the most visible and influential voice explaining consistent economic reforms to the public. It could draw on the talent in the Productivity Commission, which seems to have been somewhat sidelined in recent years, as well as the Department of Trade, which seems wrongly placed in Foreign Affairs. Parts of the Department of Labour might also be usefully integrated into such a new department. Bundling these supply-side oriented instrumentalities of government together would give logical cohesion to long-term economic policy-making and fostering a principled 'order policy' (Kasper, Streit, Boettke, 2012, pp. 346-352). It would of course diminish the still-dominant role of Treasury over economic advice to the government, offering longer-term perspectives to balance the necessarily shorter-term orientation of Treasury, but it would help to make fiscal and monetary policy more effective by fostering an elastic, responsive supply apparatus.

In complementing Treasury with a Department of the Economy, Trade and Competitiveness, the Australian government would follow successful models of governance in other countries, for example the long tradition of the German Economics Ministry or, more recently, the Ministry of Economic Affairs and Competitiveness of the Spanish government. The proposed department would have the additional

role of educating the wider public and conflicting interest groups about our shared interests and the fact that short-term political conflicts over the longer term often dissolve into complementarities. After all, a prospering, productive nation is in all our interest.

The Case for a 'New Australian Settlement'

With each item taken in isolation, the above list may look daunting. In the present political climate, implementing the necessary reforms will not be an easy task, but it is one that deserves to be promoted in a national debate and one that is absolutely crucial to revitalising this country's material progress. A reform strategy becomes more feasible when it is comprehensive and reaches beyond mere economic policy, for many of the necessary adjustments are mutually supportive.

We also need to remember what history has shown time and again: Australians perform well in adversity. The disheartening pessimism of the present slowdown does not become us. Besides, our predicament—judged by international comparison—seems manageable. Many foreign observers admire Australia's material and cultural achievements and find our condition enviable compared with their own. After all, this country has not experienced a recession in a generation and has made important contributions to global material civilisation. Therefore, is there no need to remain clueless and on the skids. Looking at Australia from afar, this nation has much to be proud of and confident about. There is a great need for intellectual input by businesspeople, academics and political thinkers to highlight the successes and reject the noisy, cringing self-doubters.

What is now needed is no less than a cultural counter-revolution that appeals to the traditional Australian spirit of self-reliance and can-do optimism. We, the people, want to be self-responsible adults. We should be treated as such. Opportunistic, self-anointed political and lobby elites, who are searching for more and more disadvantaged victims and claimants, do us no favours (Cater, 2013). We are not a society of welfare zombies. Political leaders, who uphold our most outstanding, shared capital asset — namely our respect for individual responsibility coupled with personal, spontaneous support for rules of

honest, benevolent conduct and the rule of law — will earn moral and electoral support. It should be a source of optimism that Australia's is now an affluent, well-educated society and a part of the successful Anglo-Saxon model. There is no reason to see Australia through the lens of a cultural, industrial or moral cringe. It is doubtful whether a New Settlement can be conceived by those engaged in the day-to-day political business; they lack the time, the long-term orientation and arguably the life experience and intellectual capacity to master this task. The task falls to concerned citizens. Let the wider public start a conversation on how to overcome the prevailing mood.

Placed in the context of Australian history, the above enumeration of reform initiatives can be categorised under five high-level, fundamental political priorities, which I would call 'the New Australian Settlement'.¹⁶ The original 'Australian Settlement' created a set of overarching, organically reinforcing understandings, an underlying socio-economic order, which underpinned the general politics and the economic development of the Federation. From the mid-1960s onwards, these fundamentals became gradually untenable, as mentioned. Australian politics lost its cohesive foundation. It has gone through an entire generation of unsettled, at times chaotic, confusion about the fundamentals. Now that the palliative of the mining boom has ceased to work, it seems high time to overcome the collective psychological and implicit political consequences of the loss of the original Settlement during the 1960s–1980s. We should end the uncertainty and develop a 'New Australian Settlement' of five core elements:

- (i) *Individual freedom*: A first fundamental must be a renewed recognition that the intellectual and moral basis of national community is respect for the individual and individual freedom, combined with mutual respect and benevolence. Ours is a well-educated, wealthy, peaceful and successful society, which cherishes these cultural values. Freedom makes it possible

¹⁶ It is doubtful whether a New Settlement can be conceived by the agents of the day-to-day political business; they lack the time, the long-term orientation and arguably the intellectual capacity to master this task. The task falls to concerned citizens.

to return to the bedrock of sober, self-reliant, independent-minded Aussie material liberalism, which enabled Australians to flourish in the nineteenth century and served as the foundation of the successful reforms from 1983–2003.

- (ii) *Openness to the world*: Australia is open to the world—to trade, investment flows, ideas and people. Openness to the world must govern the behaviour not only of globally competing workers and enterprises, but also of internationally less exposed service organisations, such as government administrations. Openness is tempered by our sovereign right to govern ourselves and choose freely how we deal with the outside world.
- (iii) *Openness to the future*: Australian society favours innovation, risk-taking and enterprise. We forego reactionary obstacles to self-responsible experimentation and the exploration of new opportunities.
- (iv) *Modest government*: Government is small, secular and modest in its aspirations to shape the social order, which essentially rests on what evolves from private and civic interactions. In other words, the main function of government is to be protective of our diverse, self-chosen ways of life.
- (v) *Anchored in Western values*: Australia has been, and will remain, committed to the values of a free, secular, democratic society; in short the values of Western civilisation. This is reflected in our enduring, but not uncritical membership of the Western community of nations, irrespective of the second point above, the commitment to openness. It is impossible to be a free, confident participant in the global community, open to trade and ideas, without knowing one's roots, what one stands for and to which 'values community' one belongs.

Once understood as parts of a New Settlement, the long list of reform points enumerated above will be perceived as a mutually reinforcing, cohesive whole. It can then be comprehended and embraced by both the principals of the political venture of Australia—namely the citizens—and their temporarily appointed agents, the political and administrative leaders. Such a New Settlement would again provide a degree of fundamental political consensus and hence certainty for the citizens about the long-term future. In turn, it will serve as the intellectual and moral foundation for a renaissance of economic growth and social wellbeing.

A shared understanding of the above policy fundamentals would help overcome the present focus group-driven divisiveness, short-termist opportunistic tussles for political power and the resulting economic uncertainties for investors, workers and the young. The present negativist trench warfare threatens to prolong the post-mining boom slowdown. Obstinate, short-sighted political leaders risk the economic life opportunities of a whole new generation, reminiscent of the costly trench warfare that obstinate, short-sighted military leaders inflicted on an entire generation 100 years ago. The challenge is for intellectual and political leaders to be educators of the wider public, to demonstrate the bigger, long-term interdependencies and encourage strategies that are sustainable over a generation span.

The economic uncertainties and polarised divisions can be overcome by the unifying strategic consensus to pursue economic freedom under a New Settlement. This would restore intergenerational equity and promote social harmony by establishing balance between Australians as consumers and the same nation as producers. The art of politics should be to narrow artificial political divisions, rather than trying to derive electoral advantage from exaggerating and exploiting them. This, by itself, will serve to advance an outlook of optimism and hope.

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THE CASE FOR A NEW AUSTRALIAN SETTLEMENT

Ruminations of an Inveterate Economist

Australians should engage in a national conversation that draws on the traditional Australian spirit of self-reliance and can-do optimism – a new ‘Australian settlement’ which goes beyond mere economic policy. It should be underpinned by agreed basic understandings across political and social divides: (i) ours is a free, educated, wealthy society, based on mutual respect and benevolence and an individualistic order, (ii) our society is open to the world; (iii) we are open to the future and embrace enterprise, (iv) commitment to small, secular government, which focuses on the protection of our time-tested way of life, and (v) this country is committed to liberal, secular and democratic values, and hence will remain a member of the Western community of nations.



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