

Some Lessons of the Fraser Years

The Fraser Government stood for the right objectives, but failed to pursue its goals vigorously enough. This is the major lesson of the Fraser years.

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Throughout the period when Mr. Fraser was Prime Minister, the I.P.A. was often a critic of the Government's policies. This was generally not because we disagreed with what we understood to be the main thrust of those policies, but because we were concerned that unless that thrust was more strongly pursued, the economic problems Australia faced would persist and even worsen. Regrettably, this has happened.

To say this is not to deny that Mr. Fraser provided Australia with quite remarkable leadership during a time of exceptional economic difficulty. Few Prime Ministers have had to cope with such a serious collapse in world trade and none with the twin evils of high inflation and high unemployment. That Mr. Fraser was able to maintain the stability of his Government, the unity of his Cabinet, and lead his party to three election victories in such a period, alone marks him out as one of Australia's great Prime Ministers. On the world stage, he gained a personal respect and authority achieved by few, if any, other Australians in our history.

His achievements, indeed, go beyond this. At a time when other countries were failing to face the need to cut back government spending and encourage the productive sector of the economy — private enterprise — by reducing taxes and regulation, Mr. Fraser correctly identified the solution. It is not too much to say that other countries, particularly

the United States and Great Britain, were probably influenced by the initial successes of the "Fraser experiment".

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In 1975, he offered Australia a dramatically different alternative to the exploding spending programmes of the Whitlam era. The main features of his proposals were:

- * stopping the growth in government spending and cutting back the size of the public sector to free resources to private enterprise;
- * reducing the burden of taxation on both individuals and businesses and protecting their incomes against the ravages of inflation;
- * cutting back excessive regulations and bureaucratic controls on enterprise, and giving more scope to market forces in major areas of government activity;
- * strengthening the responsibility of State Governments and reducing the over-centralisation of government in Canberra;
- * slowing the growth in real wages to realistic and sustainable levels;
- * reducing the power of unions to compel higher wage costs, and providing them with incentives to

exercise wage restraint in the form of lower taxes and income supplements.

In the view of the I.P.A., as far as it went this was a sound approach. Indeed, it remains the only approach which can restore Australia to economic health. It is an approach we will be urging on the new Hawke Government at every opportunity — for it goes beyond party philosophy to basic economic rationality.

National attitudes

The main gap in the Fraser programme was the lack of any consistent means of getting across the message that fundamentally our problems arose out of national attitudes, and that government alone did not have the means of solving inflation and unemployment. Paradoxically, a government that urged "smaller government", nevertheless relied too heavily on the assumption that government action alone could cure our economic ills.

Great nations are made not by governments, but by the people themselves. The I.P.A. has consistently urged a process of national education and we welcome that emphasis in Mr. Hawke's programme which stresses the need for a broad national understanding of the causes of our economic problems. It is important, however, that if economic recovery is to occur, it be based on a sound understanding of the realities of economic policy.

The Fraser Government slowed, but did not reverse, the growth of government spending in Australia. Relative to other countries it achieved marked success in reducing the rate of growth, and in its own sphere of government, the Federal level, it actually produced a decline in the overall proportion of the government

budget to G.D.P. until the 1982/83 budget was overwhelmed by the world recession and drought.

To its lasting credit it exercised the tightest financial controls of any Australian government of recent times. Over the period 1975-83, Federal Budget spending grew by only 2 percent on average, per year in real terms, compared to 10 percent under the Whitlam Government, and 4 percent under the Holt, Gorton and McMahon Governments. Though not enough, it is an achievement which must not be underestimated. During this period, however, the Fraser Government received little support from the States, even from State Liberal governments. It is clear that at the State level, the Liberal Party still has much to learn about economics.

During this period of restraint Australia resumed reasonable economic growth. Employment picked up markedly after 1977 and unemployment began to come down. While a range of factors have to be taken into account in a satisfactory explanation of these trends, they do show that pump-priming government spending is in no way a necessary condition for restoring economic growth and reducing unemployment.

The I.P.A. believes that the benefits of this approach would have been much greater if it had been more stringently and consistently applied. Given the inevitable (and even indexed) growth in large sectors of budget spending, this would only have been possible if whole programmes had been handed back to the private sector, and if the indexation of certain welfare benefits had been ended. In its current work the I.P.A. will be examining the areas where it is most important that this be done.

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The most significant policy failure of the Fraser Government — and the one which more than any other probably contributed to its defeat — was the failure of its wages policy. The gross imbalance between wages and profits which opened up in the Whitlam years was partially restored in the period up to 1981, but from that year a new wages explosion took place which, allied with the shorter hours campaign, destroyed the profitability of many companies and led to greatly increased unemployment. Throughout this period, the I.P.A. urged a more imaginative approach to achieving wage restraint — and indeed restraint on all incomes. The government's wages pause was a laudable and necessary initiative but it was too long delayed. The refusal of the Labor Party and the A.C.T.U. to support direct restraint on wages was irresponsible. The Hawke Government now faces a great responsibility to achieve this wages restraint. If it fails to do so, the disastrous results which would follow for inflation and unemployment will undermine the new government before many years have elapsed.

Reduction of real levels of tax

We have also seen it as fundamental to

economic health that real levels of taxation must be reduced, both for individuals and businesses. By holding down the growth in spending, the Fraser government slowed the rise in taxation. But the tax burden has increased and continues to increase, and our prosperity suffers accordingly. Punitive tax avoidance legislation (which, under the circumstances, we supported) and the search for new taxes are the inevitable consequences of further increases in the size of government. The Australian community simply does not accept that government services constitute a "social wage" which compensates for lower rises in wage and salary incomes. People want to spend more of the money they earn, for the very good reason that they believe they know their own needs better than governments. No government which fails to recognise this will be long-lived.

The difficulty the Coalition found in coming to grips effectively with the budgetary and economic problems facing Australia — despite the leadership of one of the strongest and most determined Prime Ministers in our history — shows the true magnitude of those problems. We have cause to be grateful to Malcolm Fraser for the course he set and the degree of control he managed to implement over the bloated public sector. We have cause for foreboding in the fact that even he was unable finally to get on top of the inflationary incomes push. Unless this problem is solved the path for Australia must be inexorably down in a spiral of renewed inflation and mounting unemployment. This is the great challenge now facing the Hawke Government.