Speech by

JOHN KINGSTON

MEMBER FOR MARYBOROUGH

Hansard 11 November 1998

NATIONAL COMPETITION POLICY

Dr KINGSTON (Maryborough—ONP) (6.07 p.m.): I move—

"That, given the fact that the National Competition Policy is the domestic extension of the economic rationalism, and the international history of the economic chaos produced by the adoption of the so-called level playing field which I will outline whilst so moving, this House determines to severely dilute the NCP before it costs Queensland more economic growth, more jobs, more welfare recipients, the total collapse of our rural communities, the loss of more industries, an ever-widening gap between the privileged and the rest, the loss of the Australian way of life and, eventually, depression. The indicators of economic malaise are already evident to all Queenslanders."

I intend to leave the discussion of the actual physical and economic negative impacts of the National Competition Policy largely to my colleagues. My aim tonight will be to establish that the NCP is the domestic extension of economic rationalism, and to outline the history and impacts of economic rationalism. By so doing, hopefully I can indicate what we can expect from the NCP and outline the potent reasons why its efficacy should be severely diluted.

Economic rationalism is the recent term for a school of economic thinking otherwise known as neoclassical economics. The father of that school was Adam Smith, who wrote the 1776 classic The Wealth of Nations. Modern proponents include Hadek, Friedman and the vast majority of academic economists, including the unfortunate lecturer who tried to teach me economics. Fortunately, we now have a few academics in Queensland within the Centre for Australian Regional and Enterprise Development—CARED—who appreciate the negative impacts of economic rationalism and the NCP. Coincidentally, one of them comes from Kingaroy.

According to John Carrol from the La Trobe University, economic rationalism is a subspecies of the philosophy of liberalism, with its stress on the autonomous individual and one ultimate value, which is freedom. It applies the same radical philosophy of removing all constraints to economic activities. Its guiding principle now is deregulation. Its fundamental underpinning comes from Adam Smith's notion of the "invisible hand". This notion assumes that there is an implicit principle behind the scenes guiding the free market that ensures that the outcomes of the free market are just. Thus the system promises not only prosperity and efficiency but also justice. I think Smith forgot that people influence the market, and in 25 years of international economics I am yet to encounter a truly free market.

Neoclassical economics was adopted in the West in the 1920s. According to Carrol, it was discredited in the 1930s by the Great Depression, when its policies aggravated rather than softened the economic debacle. The harsh reality of the Depression resulted in the adoption of the general theory of John Keynes—the Keynesian theory—and the New Deal of President Roosevelt. Keynesian theory dominated policies in most Western countries until around 1970, producing sustained and stable growth and near full employment.

In Australia in the period 1945 to 1970 under Keynesian policies we had annual growth rates of 4.7%, ahead of Canada, the US and the UK. Our population rose from 8 million to 13 million and the average unemployment rate was 1.25%. Real GNP jumped from $5 billion to $17 billion and output per person rose by 80%. According to C. D. Kemp, the 1960s was an extraordinary period of economic growth in Australia. Output per person rose by 4.5% annually in manufacturing, 5% in the rural sector and 9% in mining. Real GDP per head rose 37% in the sixties. Inflation was low and steady, and investment was sustained at a high level due to confidence fostered by the Federal Government.

By 1970 Keynesian policy was losing its efficacy in Australia. Why? It was impossible to apply a key strategy or remedy. When the economy went into boom because private demand was high, it was essential that the Government cut back its own demand to balance the aggregate. But the large new central bureaucracies in Canberra concerned with welfare, education, health and defence could not achieve this to a significant extent rapidly enough.

When the Government slowed its own economy, that action reduced production. With the generous levels of welfare that existed, demand outstripped supply and we moved into stagflation. The response to stagflation was a resurgence of neoclassical theory within universities. This coincided with our resources boom in the 1970s. Policy makers believed that we had such a prosperous future, largely from mining income, that we could radically reduce our manufacturing sector. Manufacturing overseas was, in some industries, more efficient and cheaper. This led the Whitlam Government to a sudden 25% reduction in tariff rates in 1973. This experiment meant compete successfully or perish.

By the 1980s we had a rapidly increasing external debt and our credit rating was downgraded. Under the Menzies/McEwan Government, an overseas deficit was met by an effective imposition of restrictions on imports and exchange controls. McEwan fathered the paradoxical policy of supporting farming interests and also providing the framework for protecting city and rural community industry behind protective walls. This led to a stable business climate which attracted extraordinary amounts of productive investment. This nexus between the manufacturing industry and the rural sector by a powerfully interventionist Government is a parallel to the "rye and iron" policy which took Germany from a feudal backwater to a very powerful economy.

In the 1980s a new mandarin class of free market economists had taken over in Canberra. They were more devoted to the purity of this theory than looking with intellectual scepticism at reality. The assumption was that steady reduction in protection would force an improvement in our capacity to export manufactured goods and, thus, reverse the deficit. Keating spoke repeatedly of the beautiful trend upwards that would appear. It never did. The Fraser coalition between 1975 and 1983 tended towards interventionist policies heavily influenced by the Country Party, but the new Treasurer, John Howard, was a rationalist and still is.

What were the consequences of economic rationalism in 1991? I will give just a few examples. Black & Decker, our only manufacturer of power tools, closed in 1981. Thus, our overseas debt went up one more notch. Consider this closure and the car industry. Carroll concludes that the notion of the level playing field is an economic nonsense. If absolute free trade were assumed, there would be one huge manufacturer dominating the car world because of economies of scale.

In 1991 the Federal Government issued a special industry statement to announce its central policy in the urgent business of guiding Australia out of severe recession. For a decade, Pacific Dunlop had been responding to rationalist policy by steadily closing Australian plants in favour of ones offshore. In 1991 Grosby Footwear was moved to China. Letona Pears lost its Japanese market; Mildura Oranges lost its overseas market in the face of competition from Brazil; and Ralph McKay Heavy Machinery went into receivership.

Our overseas debt in 1988-89 was 41% of GDP, double the total export earnings for that year. Such a level of debt compromises the capacity to repay. Annual interest on this debt was $14 billion, or about 25% of total export income. Real unemployment was estimated to be somewhere between 12% and 17%. Australia moved into an era of non-productive investment, paper entrepreneurs and bankrupt State banks.

In 1992 Keating spoke in interventionist terms but maintained his own rationalist policy. In the meantime the Liberal Opposition coined Fightback, an even more draconian level playing field. The Hilmer report was commissioned in 1991 and the NCP was legislated in 1995. The Industry Commission told us that the benefits of Hilmer and related reforms would include a real GDP rise of 5.5% per annum, real wages would rise by 3% and there would be 30,000 more jobs.

Time expired.