

Australia faces danger as politicians ignore danger signs

By Maurice Newman, *The Australian*, 23 June 2016

Decades ago, JK Galbraith lamented the extreme brevity of financial memory. In his essay *A Short History of Financial Euphoria*, he wrote: “There can be few fields of human endeavour in which history counts for so little as in the world of finance. Past experience, to the extent that it is part of memory at all, is dismissed as the primitive refuge of those who do not have an insight to appreciate the incredible wonders of the present.”

Today’s extreme valuations of financial assets, so soon after the global financial crisis, make Galbraith’s point. But it’s not only financial memories that are afflicted. The reckless behaviour of world governments and central bankers across the past eight years confirms they are not alone.

Malcolm Turnbull certainly appreciates the incredible wonders of the present as he enthuses that “there’s never been a more exciting time to be Australian”. We all love an optimist, but it’s hard to share the excitement given the Prime Minister’s obvious cultural cringe, the prospects of higher taxes, continuing empty treasuries, increasingly oppressive government, falling living standards and sacrosanct workplace laws.

Even if he has forgotten, we remember that as recently as May 2014 the government of which he was a minister was focused on a budget emergency. That may be passed off today as an Abbott-Hockey construct, but debts and deficits continue to mount under the Turnbull Coalition team, with net debt expected to climb to \$357 billion in 2019, up from \$290bn this year. Claims of a balanced budget by 2021 seem heroic.

Not that Bill Shorten and his Labor colleagues offer anything better. They too rejoice in a naive view of the present. They conveniently forget the 2007 Howard government’s \$20bn surplus and no-net-debt inheritance that by 2013 had been turned into a \$19bn deficit and \$161bn of net debt. They overlook locking future governments into spending commitments that banked a once-in-100-years resources boom as permanent. They may forget, but our creditors won’t.

Labor says it puts people first and guarantees, even though costings have not been released, that its policies are “fully costed and fairness tested”. Really?

What experience tells us is that these guarantees are based on politically oriented, notoriously unreliable, best-case statistics.

Furthermore, Labor’s anti-business platform, which rejects the government’s planned corporate tax cuts as old-style Reaganomics, together with its proposal to lift electricity prices through growth-killing, job-destroying renewable energy investment, means that whatever doubts may exist around the Coalition’s forecasts, Labor’s are totally lacking credibility.

Truth is, Labor and its fellow travellers within the Coalition, the media and the left-wing intelligentsia have never really signed up to serious fiscal restraint, let alone a budget emergency. After 25 years of uninterrupted growth, they have grown complacent and take improving living standards for granted. They give priority to populist programs to buy votes and foolishly deny that talent and capital move to where they are most welcome.

The election campaign makes no mention of repeated warnings from the World Bank and the International Monetary Fund about sluggish demand in advanced economies, weak trade, diminishing capital flows and slower world growth. Budget forecasts happily ignore the fiscal ramifications of another global recession or a prolonged slowdown.

Yet in the US, despite eight years of zero interest rates, the data flow continues to disappoint. Business sales have been declining for nearly two years and inventories to sales are back to where they were in the last recession. The trend in employment is down and bankruptcies year-on-year are up 32 per cent. People who follow these things say in the past such trends presaged a recession only months later.

In Europe, Deutsche Bank's chief economist David Folkerts-Landau launched an extraordinary broadside on the European Central Bank, saying it "has lost credibility within markets and, more worryingly, among the public". "The ECB's response is to push policy to further extremes. This causes misallocations in the real economy that becomes increasingly hard to reverse without even greater pain," he warns.

Irrespective of whether Britain leaves the EU, Europe is in a fragile state socially and economically and polarising politically around Left and Right extremes.

Asia, simplistically promoted in Australia as the unstoppable key to our prosperity, also is slowing. Last year China grew at the slowest pace in 25 years with officials projecting a tougher year ahead. Trade data remains poor and China suffers rampant surplus capacity. Its debt levels prompted celebrated currency speculator George Soros to short the yuan and observe that the "Chinese economy is like America in 2007-08".

Japan, Australia's second largest trading partner, is flirting with recession and the OECD forecasts that growth in South Korea will decline through the forward estimates. Hardly a cause for optimism. And when Bill Gross, one of the world's most successful bond investors, says "global yields are at their lowest in 500 years of recorded history ... this is a supernova that will explode one day", we should listen.

The risks are clearly not trivial and are increasing. Like the rest of the advanced world Australia faces debt, ageing demographics and potential deflation.

Yet the main parties have resolved to whistle a happy tune as if there will be no day of reckoning. Best to wait until credit downgrades or a crisis leave them with no alternative.

In the meantime, in the absence of fundamental structural change where markets can operate without being crowded out by big governments, plans for “jobs and growth” and putting “people first” are merely empty slogans.

So, presented with representatives from the main parties each preferring to inhabit that primitive refuge of selective memories and blind eyes, voters’ choices are limited. The best they can do is inflict the least harm on their children’s future and hope that in time safer options will present.