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## OPINION

# *Budget shock: Morrison government hit over the head by a paradigm*



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The media missed the big story in last week's budget. They were present to observe a rare event – a shift in the economic management paradigm – but all they saw was just another big-spending, vote-buying pre-election budget.

Since the post-World War II Golden Age ended in the ignominy of stagflation in the mid-1970s, the first rule of politics has been that most of it's economics. Economies don't run themselves, and managing them is the chief job of national governments. Bad economic management is the chief reason governments get thrown out.



Treasurer Josh Frydenberg poses for photos with budget papers before delivering his post-budget address to the National Press Club. ALEX ELLINGHAUSEN

(This is the story of my career as a journalist. I arrived as a dissatisfied chartered accountant looking for a career change just as the nation's editors were getting that message. When the editor asked me what I wanted to do in journalism, I said "write about politics". He told me that if I wanted to get ahead, I should pretend to be an economist. Advice taken.)

But that message seems to have been lost. Today's political journalists can see the politics in everything, but not the economics. It doesn't help that, after decades of media management, they never get to speak to the Canberra econocrats.

What this year's budget tacitly acknowledges is that recovering from the coronacession isn't the real problem. We seem to have that well in hand. The real problem is that returning to the pre-virus status quo doesn't get us to where we need to be: enjoying healthy, *sustainable* economic growth.

The real problem is that, like all the advanced economies, we're stuck in what former Bank of England governor Mervyn King has called a "slow-growth trap". The causes of this trap are "structural" (deep-seated and long-lasting) not "cyclical" (temporary).

The symptoms of that trap in Oz are neatly summarised by APAC economist Callam Pickering: "Australia hasn't experienced an unemployment rate of 4.5 per cent or lower in 12 years. We

haven't experienced wage growth of above 3 per cent in eight years, and core inflation hasn't sniffed 2 per cent in five years."

The political journalists noticed Treasurer Josh Frydenberg's "pivot" in a speech 12 days before budget night, but not the pivot the econocrats' made under cover of the coronation. They abandoned their seven-year insistence that the weakness in wages and inflation was merely a cyclical delay and would come right in the next year or two.

If you read the speeches of Reserve Bank governor Dr Philip Lowe and Treasury secretary Dr Steven Kennedy carefully, you see their quiet acceptance that our weak growth has structural causes, and won't be cured unless we do something different.

Such as? Using more fiscal stimulus to target a much lower rate of unemployment, in the hope this will at last get us some decent growth in wages, which would flow on to stronger growth in consumer spending and then maybe even to stronger business investment spending.

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The evidence that the two institutions have stopped pretending our problems are merely cyclical can be seen in their most recent forecasts, which have the rises in wages and inflation staying weak for the next four years.

Because the political journalists saw Frydenberg's pivot but not the econocrats' pivot, it never occurred to them that Scott Morrison and his Treasurer's change of tune happened because the econocrats advised them to. Nor that what journalists see as motivated purely by political expedience, most economists (and I) have welcomed.

It's a truism that politicians never do anything without considering its political implications. But a more perceptive observation is that governments rarely make significant policy changes without at least *two* good reasons.

In leaping to the conclusion that the only conceivable reason for Morrison and Frydenberg to do something so contrary to their long proclaimed "ideology" is political expedience – what pollie in their right mind would cut spending or increase taxes before an election? – the political journalists have failed to see what was obvious to the economically literate: that our present circumstances presented the government with a fortuitous alignment of attractive politics and good economic management.

As the independent economist Saul Eslake has said, "the government's decision to defer the task of 'discretionary budget repair' for at least another year is politically expedient, but that

doesn't make it wrong. On the contrary, it is 'The Right and Proper Thing To Do' [as Alf Doolittle said in *My Fair Lady*]."

In this Eslake is no Robinson Crusoe. A [recent survey](#) of 60 leading economists by the Economic Society of Australia found that 47 of them back the government's decision to aim for an unemployment rate of less than 5 per cent.

Failing to appreciate the significance of this marked change in economic strategy, some political journalists are predicting that Morrison and Frydenberg will revert to their former political ideology and fear of debt and deficit as soon as they're re-elected.

After brilliantly using a Labor-lite budget to steal Labor's clothes and win the election, the Debt Truck will be back and the Coalition will reassert its claim to being more fiscally responsible than those profligate unwashed Labor Party people.

Having assured us three weeks ago that the government isn't planning "any sharp pivots towards 'austerity'," Frydenberg will do a reverse-pivot soon after the election. Maybe, but I doubt it. If he does, he'll have some very P-ed off econocrats, not to mention an army of critical economists.

This is not to say, however, that sometime in the coming years, after we *have* achieved some decent wage growth and a return to rising living standards, whichever party is in power will act to reduce the structural budget deficit.

Not by swingeing cuts in major spending programs, but by increasing taxes – letting bracket-creep rip, increasing the Medicare levy or cutting superannuation tax breaks. In the meantime, it wouldn't be surprising to see either side abandon the third stage of Morrison's tax cuts which, at a cost to the deficit of a mere \$17 billion a year, is aimed at rewarding higher income-earners.

The simplest way to explain the economic management paradigm shift occurring before our eyes is that the econocrats have only two levers for managing the economy: interest rates (monetary policy) or government spending and taxing in the budget (fiscal policy). When one lever stops working, they switch to the other. It's happened before, it's happening now, it will happen again after I'm dead.

Economic management is moving away from monetary policy not just because the official interest rate has hit zero but also because, as the International Monetary Fund's chief economist, Dr Gita Gopinath, [has written](#), the world is caught in a "liquidity trap" – that is, there's loads of money waiting to be borrowed, and at very low interest rates, but business isn't keen to borrow. Cutting rates further doesn't change that.

But even the liquidity trap is just a symptom of deeper, structural problems causing weak wage growth, weak business investment and weak productivity improvement – all of them evident in all the advanced economies since the global financial crisis.

Get it? The developed countries are changing the rules of how they manage their economies because the old rules have stopped working. Our political journalists, convinced what's

happening here is just a tawdry election trick, don't seem to have noticed that similar things are happening overseas.

The Americans have switched their economic management paradigm simply by moving from Donald Trump to Joe Biden. Biden, actually from the cautious, compromising side of the Democrats, is spending government money far more aggressively than Obama or Clinton.

Why? Because his economic advisers are urging him to. Trump slashed the rate of company tax; Biden wants to put it back up. So does the Conservative Boris Johnson in Britain. The race to the bottom is reversing. Business won't be getting its way nearly as often in the new world.

What's true is that the old paradigm fitted our Liberals much more comfortably than the new one does. Morrison and Frydenberg will have their hands full sending their backbenchers to re-education camp. They'll need to drop their populist fear-mongering over debt and deficit, and their private good/public bad rhetoric.

The new paradigm fits Labor a lot more comfortably – provided it doesn't take too long to realise the wind has changed, and get its courage back. Watching Anthony Albanese's budget reply last week – in which he seemed to use the word "wages" in every second sentence – made me think he may be waking up faster than the political journalists.

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