

# Coping with the recession

CHRISTMAS this year finds Australia sliding inexorably deeper into recession. Unemployment rose by over 67,000 in October, making a total figure of more than 539,000, or 8.2% of the workforce. With the school-leavers coming onto the market, this figure is expected to climb to over 9% by February, and perhaps even go to 10%.

The Christmas season will not be quite so jolly this year for these people. Indeed, as hire-purchase payments for goods and furniture fall due, many will find themselves deprived of essentials. It is a gloomy picture, but one which we cannot ignore. The issues must be faced squarely if equitable solutions are to be found.

## Confining the recession to the unemployed

Up till recently, the burdens of recession have been confined largely to the young, Aborigines and migrant workers. These have been without much political influence and marginal in the concerns of the wider community. Unemployment benefits were kept low, though they have recently gone up to \$40 a week for youth and \$64.40 for single adults. Even so, these benefits are ludicrously below the poverty line of \$96 a week (March 1982).

Now a major change has occurred in the nature of unemployment. It has got larger. Whereas in 1974 those unemployed for more than 13 weeks numbered only 11,000, today they number 240,000. And benefits which were helping people survive short terms without work must now stretch over a longer time, forcing people to eat into whatever capital they may have. The obvious and least inequitable response is that unemployment benefits should be lifted at least to the level of the pension.

The confining of unemployment to marginal groups in society did not upset many of the larger and more powerful unions. Some of these have been able to force major wage gains despite the increasing levels of unemployment because of their monopoly hold on certain sections of industry. This was confirmed in November with the release of figures which showed that average weekly earnings had increased by 18.2% in the year ended September, while inflation for the same period was only 12.3%. So while some are

making major wage gains, the burden of the recession is still being confined to those unemployed.

This inequitable arrangement of confining unemployment is now falling apart as major industries are laying off large numbers of adult workers, mainly males. 32,000 adult males were laid off in October, particularly in mining, steel and manufacturing industries. Since many if not most of these new unemployed are breadwinners, the social cost in family stress and personal hardship is going to be high.

This new surge in unemployment means that it is going to be very difficult for any governments or interest groups, business or union, to confine unemployment to certain marginal groups. It looks like being the number one election issue, and unless the Liberal Government can build the situation into a law-and-order issue, then it

from unemployment. It appeals very strongly to the main interest groups in whose benefit it operates, both the business interests and the unions in those industries.

However, as economics writers have been saying steadily, it is a recipe for disaster in the longer term. It was the recipe that produced the Great Depression of the 1930s. A similar disaster is not out of the question today, unfortunately.

As Ross Gittins pointed out in one of his ever-readable articles in the *Sydney Morning Herald*, protection acts like a tax on non-protected industries and consumers to benefit the protected ones. The motor car industry gains a billion dollars a year this way. It is a fallacy, continued Gittins, that protection preserves jobs, because it ignores the effect protection has on non-protected industries. It seems then, that rather than protecting jobs, protection merely transfers jobs from non-protected



appears very unlikely to be returned to office. But whether or not a Labor Government should be returned to Canberra, what alternative strategies does any government have?

## Alternative strategies

There appear to be two basic alternative lines of economic policy or reconstruction. The first is to turn to protectionism, and to try to keep jobs in Australia. The second is to accept the possibilities and difficulties of more open trade, and prepare for a major restructuring of the Australian economy.

The first course, of turning to protectionism, has much to commend it politically. It appeals to voters in that it appears to keep jobs in Australia, and it offers some short-term stimulus and relief

industries to protected ones within a country. This explains why the Government was unwilling to increase protection for BHP steel recently, since it would have meant job losses in other industries which would not have been able to meet the higher costs incurred when compared with imported steel.

Nor will protection even preserve existing jobs. Gittins showed how heavy protection for the textile industries during the 1970s has resulted not in saving jobs but in investment in advanced labour-saving technology. So we have the paradox of protected industries making very good profits, with the benefits tending to go to the employers rather than the workers.

Perhaps the most important reason of

all why Australia cannot resort to heavy protection policies is that it cannot cut itself off from the world market. Our mining and agricultural industries are particularly dependent on world markets, and it makes excellent economic sense for us to trade with our neighbours where they can produce goods more cheaply than us. There are great benefits for Australia economically in such a trading situation.

#### **The path to economic reconstruction**

The other alternative, one which calls for careful planning and cooperation between employers, unions and governments in Australia, is to embark on the path of economic reconstruction, taking full account of the changes in international trading patterns, particularly in South-East Asia, one of the fastest growing markets in the world. To do this means a major reshaping of Australia's economic base, particularly a winding down of much of small manufacturing, and a shift into trading goods and services, as indicated in Commonwealth Secretariat report for the recent GATT meetings.

The problems with adopting such an advanced policy of reconstruction are numerous. Firstly, it requires that politicians are able to follow the best of current economic advice, and not be forced to cave in to strong pressures from special interest groups in business and unions. In

other words, it requires politicians with enough public support and real leadership ability to be able to sell a programme of economic reconstruction to the electorate.

This will not be easy, since any major reconstruction effort will require elimination of certain industries, relocation of others, major reforms in yet others and the founding of new ones without strong pressure groups to support them. The political skills required for such a policy are significant.

Secondly, reconstruction demands far closer collaboration between employers, unions and governments. While confrontation between unions and governments remains the standard rule of the day, little will be achieved. But cooperation will require that workers' representatives take a far more active role in the management of business enterprises, so that they have a real share in the control and benefits.

Governments should be encouraging such cooperation between unions and employers, and there have been signs recently that the governments are playing a more intelligent role in industrial relations. Clearly, though, this is only a start.

The recession is not just an economic and social decline, with the threat of a major world disaster. It is also an

opportunity to put Australia's economy on to a much stronger basis, eliminate inefficient industries, improve productivity throughout, and establish the bases for new growth industries.

If Australia is to benefit as it can, then, several things are clear. Panic protection is out. Careful economic planning is required. And governments, unions and business leaders must find new ways to work together, looking to the long-term future of Australia, and not to short-term political expediency. It is quite a different Australia we are aiming for.

Not only this, but the burdens of readjustment must be shared more equitably. It is a gross injustice that the unemployed are bearing the burdens almost alone. Unemployment benefits should be raised, even though it means higher taxation. Strong unions must also realise that high wage demands can be throwing others out of jobs; equity demands that wage claims be moderated, as should profits. And unions and employers need to work out a reasonable wages policy.

It is time that Australian policy makers realised the seriousness of the situation and started tackling the range of issues before us. The task can no longer be avoided.■

— B.D.