

# A Reply to Robert Manne

By Dr Steven Kates

I appreciate that for Robert Manne, *Quadrant* is an entirely obscure magazine so that anything printed there doesn't really count as a reply to the article produced by the Prime Minister over his Christmas break. He should all the same have a look at it if he is going to discuss critics of the Prime Minister's thoughts (*The Australian* 7 April).

I wrote an article published just this month in reply to the PM. It's under the title, "Reflections of a Neo-Liberal" and while in a mere 5700 words it is hard to really explain the problems with what the PM wrote, it does at least make the attempt.

So let me try to do it again, this time in only 800 words which means coming right to the point. So here is the point. The Prime Minister has no skills as an entrepreneur. None. He has no personal judgement about what will create value and what will not.

He may be able to lead a government, he may be able to hobnob with the great and the good, but what he cannot do is work out what sorts of things will add to economic growth and what will not.

Nevertheless, he feels he can plunge right in with his plans to insulate our homes, build school libraries and now, with his latest adventure into extreme anti-capitalism, fork over another few billion to roll out a cable network that no private sector firm – firms which actually do cost-benefits studies before they spend a cent – would touch with a barge pole.

It is clearly difficult to get the message across that spending money on anything at all is not the road to growth. If all that was needed to cause an economy to create productive jobs was for the government to increase its levels of debt and spend on the first thing that came into its mind, then economic management could even be done by clueless hacks with no economic credentials to their name.

But unfortunately for us all, spending on unprofitable projects puts us into collective debt and then afterwards requires many years to pay down whatever it is a government may have chosen to buy.

Here's the deal. Spending money does not itself create growth. I know that the way economics is now taught, that is the impression one might get from a first year course, but for all that, it isn't true.

It's not the spending that creates value, it's what the money is spent on. Because unless what the money is spent on does add more value than it uses up, the economy, far from growing, will have gone backwards. Such spending slows the economy rather than speeds it up.

The Government has already committed \$42 billion on one tranche of its expenditure programme and is about to commit plenty more in the Budget in May. We as a nation have gone from debt free in a single year to what I am told is a trillion dollars of commitment. The entire Australian community now owes this money. You, me, everybody.

Why this should make someone feel richer and more prosperous is anyone's guess. Me it only gives a sense of despair. There are better things to spend our money on, and the Prime Minister seems like the last person in the world to know what they are.

The \$64 billion question is this: whether the things that are being built are going to produce more value than the value used up in their production.

If it does, bravo, we are all ahead. The economy has been allowed to grow.

But, on the other hand, if the value created by all this spending turns out to be less than the value we have used up, then the economy is worse off than when all this spending began.

For people such as myself, we find ourselves surrounded by those whose mission, as we see it, is to impoverish us all. Perhaps they really do know better and that in a year or two, we will have to come back and admit that these decisions, as dicey as they look right now, were the right ones.

On the other hand, it may well be us who are right about the dire consequences of this bizarre spending binge. It may be us who will turn out to have been correct to worry about all of this badly targeted spending and the incredible levels of debt we have now taken on.

But then it will not be enough to just say sorry, I was wrong. Because by then what we will also have to do is repay the billions and billions of dollars that we are busily spending today. And if you think times are tough now, wait till you see what they're going to be like then.

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