NEW STRAITS TIMES

12 June 2012

Australia not taking sweet spot for granted

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LESSONS: Responsible policy-making needed at all times

A coal stockpile at the Blair Athol mine in Bowen Basin, Australia. The mammoth Chinese economy has contributed to the Lucky Country's mining boom. Reuters pic

WITH tales of distressed Spanish banks, the unfolding Greek political-economic tragedy, and the ever-present threat of global economic meltdown, it is nice to be able to focus on some positive news for a change.

Last week, Australia, one of a small number of economies that is doing well amid the global gloom-and-doom, reported an unusually high growth rate of 4.3 per cent for the first three months of the year, together with substantial job creation.

That it was able to achieve all of this with the government cutting back on public expenditure, holding inflation steady so that interest rates could be cut and a stock of public debt that is just 28 per cent of gross domestic product, is simply remarkable.

In economic terms, it really does not get better than this and Australia wins hands-down the right to continue to be called the "Lucky Country". (It was the only advanced economy whose growth rates did not topple in the international financial fiasco of 2008.)

It is possible that the first-quarter figures may be subsequently revised downwards. It is also highly likely that investment will not continue at the first-quarter rate, especially with commodity prices starting to go down and the Aussie dollar further strengthening.

It is also true that many feel a "disconnect" between the economic performance and their own condition. Private consumption is subdued and business and consumer sentiment is wavy. No doubt belt-tightening has not helped to spread joy and given rise to the so-called "two-speed economy".

Regardless, the Australian economy is in a sweet spot and that whatever may or may not happen to the world economy, it is in a good position to ride it out. So, can Malaysia learn from Australia?

The lessons, it seems to me, do not lie in the circumstances as they are different. Australia's mining boom has relieved the country of many of the constraints that face others, especially with the mammoth Chinese economy as a consumer.

First, Australian policy-makers are taking nothing for granted. While the good times may be rolling in for now, all eyes are on the road for potholes and ditches.

Reserve Bank of Australia governor Glenn Stevens, for example, has cautioned against re-igniting asset bubbles and asked Australians to embrace slower spending as a path to sustainable economic expansion and wealth.

Second, the value of having professional policy-makers who act on the facts and not the interests of politicians is, well, invaluable. Economic policy is just too important to be dictated solely by politicians driven by their desire to win their seats and secure plum portfolios.

Third, policy-making has to be responsible whether in good times or bad. Responsible policy-making is about making decisions that do not result in immediate gratification. It is about reluctance to burden the next generation with high levels of public debt and recurrent income transfers.

Fourth, the feeling of disconnect mentioned is one that is felt not just in Australia but many parts of the world. Some part of this may be due to mental conditioning: the media tends to play up stories of economic woes.

More pertinently though, growth-stimulating policies are often less inclusive, and when combined with belt-tightening, the effects are subdued. The Australian advice is to tough it out.

Fifth and finally, political popularity does not always jive with economic performance. For all the top marks, Prime Minister Julia Gillard still appears to be trailing in the polls.

How well the Labor Party will do is a moot point. Going by the country's economic management track record, it is poised to do far better than most.