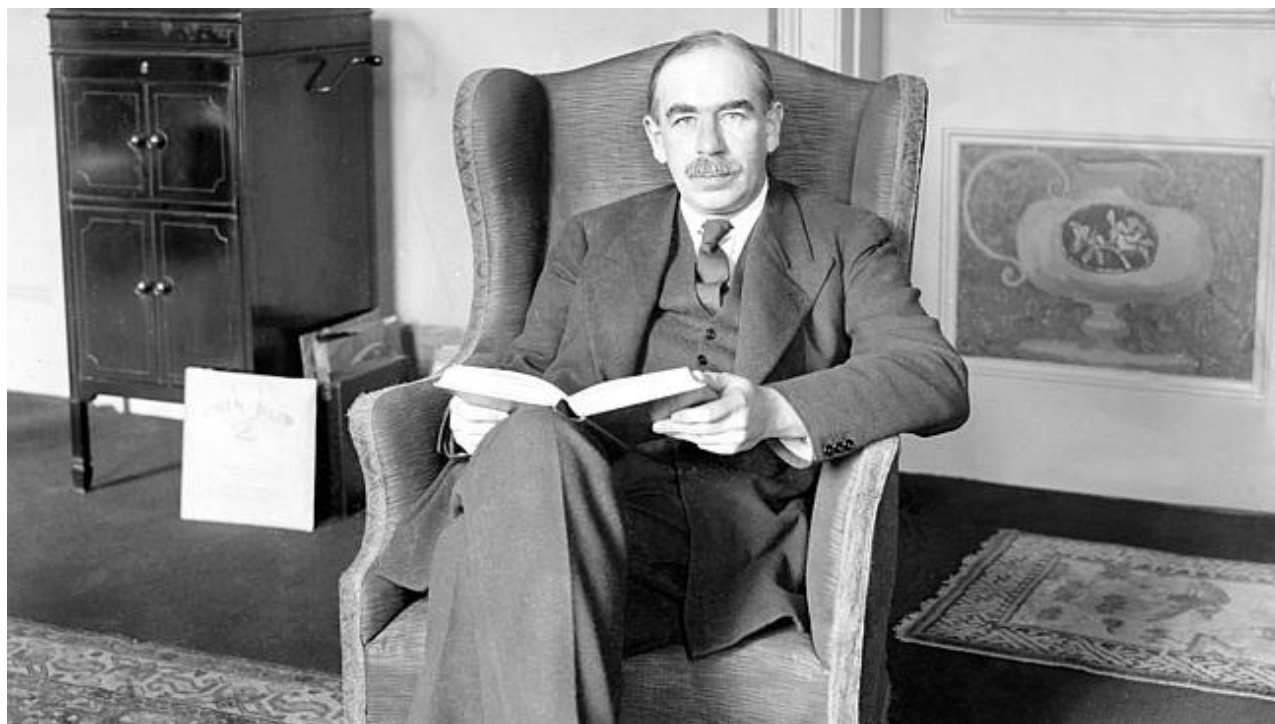


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MARKET	-1.35% 84.75	WPL +0.00% 35	WOW +1.47% 29	RIO +0.69% 58.1	BXB +0.18%
S&P/ASX 200	AUD/USD	TOP GAINER MTS	TOP LOSER SEA		
+0.68%	-0.61%	+12.06%	-6.67%		
5735.5000	\$0.80	\$1.44	\$0.63		

Bad new days of big government

STIRLING LARKIN THE AUSTRALIAN MAY 16, 2015 12:00AM



Economist John Keynes: his outmoded over-spending is still with us. Source: Supplied

During our preparatory schooling, here in Australia, we were taught democracy was a system of polity that by its very nature walked in lock-step with the principles of free market capitalism.

In contrast, we were also taught that socialist and communist systems, by their very different existence, put the state or government, not the individual, at the centre of all economic, social and geopolitical decisions made on behalf of a populace.

Living within a supposed liberalised democracy, it has become alarming to see Australia's obsession with the role of its state, level of expected government intervention and also general mindset.

The colossal attention to this week's budget attests to this obsession.

Some global investors, rightfully so, are starting to become ever more concerned with Australia's mentality towards democracy, free and liberal markets and our balance between free enterprise and the role of our state.

To be clear, government should be and is a very important stakeholder in any system, including democracies. But by definition within our polity, governments should be there to facilitate free enterprise, entrepreneurialism and business, not crowd it out nor replicate it.

The fact that Australia has not recently experienced a technically defined recession — an important part of any healthy economy's business cycle — nor has it any economic plan for the future, has set off alarm bells in some global investment quarters.

As discussed within this column previously, Australia partook in the international Globalisation Accord three decades ago, which saw us undertake the first half of this agreement very effectively.

We got rid of parts of our economy in which we were not most competitive, for example, textiles, clothing and footwear (TCF).

We then, however, miserably failed to undertake the second half of this process, which ironically was the easier of the two halves to honour.

This second half would see our economy and nation-state then decide where best to allocate our human capital, resources, ingenuity and, ultimately, our main focus.

Failure to do so has seen Australia drift without any concrete plans.

Such plans, in a liberal democracy, should not be decided by our government but by us, the people.

In this context, “the people” refers to big and small businesses, entrepreneurs, investors, academics and even unions.

The graph illustrates that Australia's budget, by international standards, still remains appropriate, but what has concerned the global investment communities, and continues to do so, is our own domestic mindset, which heavily leans towards socialist not democratic ideals.

There should be daylight between systems and currently, in Australia, one could well argue, there is not.

It was understandable why the government stepped in during the GFC crisis years but it is now time for them to “exit stage left”.

As US president Ronald Reagan once aptly said, “no government ever voluntarily reduces itself in size. Government programs, once launched, never (voluntarily) disappear.”

On this, Reagan also astutely asserted: “To sit back hoping that some day, some way, someone will make things right, is to go on feeding the crocodile, hoping he will eat you last — but eat you he will.”

Starting to sound like a broken record, an outlier and increasingly a lone voice on this subject, Australia lacks both a vision and a plan and both these should be decided by us, the community.

Australia's fiscal arm of government, represented by the Liberal Party of Australia, and its monetary arm, represented by the Reserve Bank of Australia, are stakeholders in our economy but they do not constitute our core nor even our periphery. They are both servants of our economy and should not be confused as being our economic stewards.

The disproportionate focus on this week's budget and the continued frenzies surrounding RBA interest rate policies should concern all Australian investment and business communities, as much as it is increasingly concerning global investors.

However justified, the size of government in this country has ballooned past balanced levels and this week's budget could not be considered anything less than outmoded Keynesian overspending.

With our Australian ASX 200 listed stockmarket valuations currently supported by unjustifiable and unsustainable pillars, a serious, circumspect appraisal needs to be made.

Domestic Ultra High Net Worth (UHNW) investors, like any other investment community, will continue to allocate their investment capital to its most effective likely use and these allocations increasingly see them invest more and more abroad. The knock-on effect of over-reliance on government is that in a comparatively small economy such as ours, oligopolies have been allowed to prosper — best evidenced by the continued state endorsement of the “Four Pillars” banking policy.

This has, in turn, seen ASX 200 companies, which have had capacity to invest, choose, thus far on the whole, not to do so.

Ironically, this exemplar of state-sanctioned big oligopoly enterprise is akin to that currently challenging Chinese Communist State Owned Enterprises (SOEs).

The daylight between our two predicaments, in this respect, is currently hard to see.

It is time to redirect our national conversation back to asking what is our economic plan and how can we provide opportunities for Australian investment markets to prosper, grow and in so doing, rise through prosperity not synthetic inflation measures or feigned expansion.

Government can assist with broader economic productivity growth and efficiencies — which are very important — but they should not continue to crowd the private sector in either investment or spending.

Nor should they even dictate to us our national economic direction, which is for us, the people to decide.

I, for one, am willing to fight for our democracy, free-market entrepreneurial ideals and liberties.

In so doing, we all advance Australia’s fair.

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