

## **MAGAZINE EDITORIAL AUGUST 2011**

We are entering uncertain times.

Service Station Australia, like most people, assumed that after the grim days of the GFC and the painful stimulus and correction processes that were put in place, recovery would be slow but certain. We all expected that by now, three years on, world economies would be on track for solid growth. For a while, that appeared to be the case, but over the last few months, cracks have started to appear that have grown to an alarming state of affairs. Confidence has been destroyed and stock markets are resembling the worst days of 2008.

The American economy has stalled, and the downgrading of the US debt rating suggests that the world's largest economy may well be teetering on the brink of another recession. The situation in Europe remains delicate with a growing number of smaller economies requiring ever increasing financial bailouts. Just how long the larger European economies such as Germany, France and the UK can continue to prop up these sick countries is questionable and triggering significant nervousness on world markets. Confidence is so damaged that the obligatory up-beat comments from leaders seem to have little effect.

In Australia, the situation is equally worrying. Governments, banks, financial commentators etc have for many months been talking up the strength of the Australian economy but, at the same time, acknowledging that it is in fact a two speed economy. Many of these institutions have focused on the mining and banking sectors without fully examining the rest of the economy. That picture is not all that rosy.

It is now becoming painfully obvious that large tracts of the non-mining economy are not travelling very well at all. Retail is doing it tough as people stop discretionary spending. Manufacturing is struggling with the high Australian dollar, as is tourism. The signs have been building for some time but it is only recently that the institutions that govern the Australian economy have been able to recognise them.

Those key institutions that govern the settings of the Australian economy have been missing in action, and at significant cost to average Australians. The Reserve Bank has completely missed the key signals and has the wrong strategies in place. Furthermore, the Federal Government is hell bent on pursuing big picture, feel good policies that should only be contemplated during good economic times – not during the struggles we are are facing at the moment.

The Reserve Bank has, up until this month, been more inclined to raise interest rates than lower them or even keep them steady. It's concerned about rising inflation. However, many of the increases in costs are in the area of services such as electricity, transport and government services. Health costs continue to increase for legitimate reasons. In other words, inflation is

increasing because of increased costs in the basics that society needs. Inflation is not being driven by increased consumption or by a surplus of money in circulation. There is ample evidence of discretionary spending declining rather than increasing.

Therefore, increasing interest rates can have no impact on the categories that are driving inflation higher. At this stage, with the non-mining economy faltering and probably heading into negative growth, increasing interest rates would only make matters worse by taking even more money out of circulation. What we need right now is exactly the opposite. We need lower interest rates to lessen the burden on household incomes and to give some stimulus to our sick retail trade.

For the Reserve Bank not to understand the real hardship being faced by most Australians gives cause for great concern. Either the data the Reserve Bank is relying on is wrong, or it is looking at the wrong information. Either way, the Reserve Bank is threatening to do serious damage to the Australian economy. The Government needs to have a good look at how the Reserve Bank does its job and make sure it's in touch with the real world. At this crucial time, it's very important that the Reserve Bank gets it right.

Not that the Federal Government is doing such a good job either. Rather than look for ways to turn the economy around, the Government's main focus has been on its proposed carbon tax. It is universally acknowledged that the carbon tax will make very little impact on global warming, if at all, and yet it will place cost burdens on many Australian industries and many Australian households. As the Australian economy slows and possibly heads into recession, the last thing we need is additional taxation for no benefit.

The Government needs to defer the introduction of the carbon tax until such time as the economy is clearly back into sustainable growth, which won't be happening any time soon. It would be catastrophic for the Reserve Bank to increase interest rates at the same time as the Government intends to impose a carbon tax. The combined effect of these two initiatives would damage the Australian economy irrevocably and the Government must act to ensure this doesn't happen.

For the Government to continue to pursue these dubious policies at this time is alarming to say the least. The Prime Minister and the Treasurer must put the damaging policy demands of the Greens to one side and concentrate on the most important issue facing this nation – our faltering economy. We simply can't afford the Greens' indulgent ideology.

Prime Minister, the world has changed since you took office and you need to reset your priorities. You need to focus on reigniting the Australian economy and taking the pressure of Australian households and businesses. Only then can you consider introducing your carbon tax.