of the government that it would be able to at least finance its own infrastructure plans out of its so-called "nation-building funds" like the Building Australia Fund.

(This presumption received a setback yesterday when the Senate amended legislation to block funding that the government had been relying on for broadband infrastructure.)

Further, the thinking seemed to go, the government might need to borrow only to cover smaller, and shorter-term, recurrent discretionary fixed-term funding, the prospects for new funding are bleak.

The issue has been bubbling away behind the scenes for weeks with the state treasurers lobbying Canberra for solutions to their problems and market traders and investors also throwing up a range of ideas about how to try to solve the problem, or even develop new markets to deal with it. For example, some market players have argued that creating a 20 or 30-year commonwealth bond, with an associated 20 or 30-year futures contract, could provide a

One suspects the politics of a Labor government issuing long-term debt might still put the idea in the "you have got to be kidding" basket from the government's perspective. But the idea is one that has surfaced from time to time in the markets, particularly after the United Kingdom issued 30-year paper a few years ago.

Managing the politics would mean ensuring the distinction was understood between doing

federal government-guaranteed rates.

But the politics of this whole area for the federal government is complex. There is perhaps nothing higher on the Rudd government's list of announced priorities than infrastructure and co-operative federalism.

Yet it also knows it wants to keep clear of taking on even the remotest sniff of the woes of state governments like NSW. (It has already had to go to great lengths to ensure that the funding it does have for infra-

identified.

Having said that, the infrastructure bank idea is but one of myriad that have been floating around the government and the state bureaucracies in recent weeks as they try to find a solution for the states' infrastructure problems.

As a mad political year draws to a close, it seems a bit appropriate that something so technical could take on such a colourful political hue.

■ *Laura Tingle is the* AFR*'s political editor.*

A tale of two economies: how the ABS gets it wrong

The Australian Bureau of Statistics is painting an unnecessarily bleak picture of the economy, writes **Alan Hall**.

As has been usually the case over the past five years, the national accounts tell two different stories. Quite often those two stories have been distinctly different. Those for the September quarter 2008 are no exception though, as usual, they do have a lot in common.

The differences arise because the Australian Bureau of Statistics (ABS) includes in its expenditure accounts the spending of terms of trade income on consumption, investment and gross national expenditure but then subtracts it from gross domestic product. This means that the most commonly used measure of the economy's performance, real GDP, is inaccurate by an amount equal to the gain or loss from changes in the terms of trade.

Because virtually all economists believe the inaccurate GDP number, the commonly told story about the latest accounts will be that that there was no real growth in the September quarter. This will be principally attributed to the fact that the great loss in financial wealth by households, together with increasing concerns about the future of the Australian and world economies, have induced in households a widespread reluctance to increase consumption spending. Apart from spending on machinery, new business investment also appears to have weakened.

There is no reason to quarrel with that part of the official story.

Where one must disagree with the ABS, and hence with its measurement of GDP, is its treatment of exports. In a most uneconomic fashion it counts only their volume and takes no account of changes in the purchasing power of that volume. In the current year the purchasing power of exports is greatly in excess of the volume alone.

According to the ABS, the economy's real exports were \$58.1 billion, its imports \$69.0 billion and its external balance minus \$10.8 billion. When one uses the actual real purchasing power of exports, the numbers become respectively \$70 billion, \$69.0 billion and a surplus of \$1.4 billion. The reality of the latter number can be confirmed by a glance at the current price accounts in which the economy's net balance of goods and services with the world is also recorded as \$1.4 billion. Revisions released yesterday have increased the surplus to \$2.9 billion.

It is because GDP does not include \$12.2 billion of real export earnings that the economy supposedly grew by only 0.1 per cent in the September quarter. When those real earnings are included, the GDP growth rate becomes the same as that of real gross domestic income, which the ABS correctly reports as 1.4 per cent in the quarter, or about 5.6 per cent a year. This is how the Australian national accounts tell the story of two economies. One hasn't accurately measured real export earnings, the other has.

The national accounts are being allowed to perform very badly.

The economy fared as well as it did in the September quarter because of its strong export performance. Its domestic performance was in the doldrums, but not as badly as the claimed rate of 0.1 per cent. The domestic economy's growth is better reflected in the growth rates of 0.4 per cent, or 1.6 per cent a year, experienced by domestic final demand and gross national expenditure less inventories. These help to explain the sustained increase in employment.

What the September-quarter numbers say loudly and clearly is that the economy sorely needed the recent fiscal policy assistance of the government and the monetary policy assistance of the Reserve Bank of Australia. That assistance will give welcome support to the economy during the next six months.

But much more support for the economy will need to be built into the 2009-10 commonwealth budget. The support from favourable terms of trade in the September quarter is rapidly declining. It will cease in the June quarter 2009, to be replaced by seriously declining terms of trade. On the present estimates of Treasury and the Reserve Bank a decline in the terms of trade of about 10 per cent is expected during 2009-10 and it could be much larger. A 10 per cent decline implies a 2 per cent fall in real GDP. A deficit-funded stimulus of comparable size will be needed to offset this deflationary impact and maintain the growth sustained by the recent fiscal and monetary policy measures.

There is only one current-price economy and only one "real" one. Its splitting into two "real" economies is the result of a statistical measurement error, a wiping out of changes in the real purchasing power of exports from where they have, in fact, been reported. As a result of this faulty accounting, an economy struggling to obtain community confidence is characterised as a sorry failure when in fact it performed reasonably well in difficult circumstances.

More importantly, the exclusion of changes in the purchasing power of exports from GDP means that no hint is given of the significance of what will happen to the economy when the substantial support of that purchasing power ceases and is replaced by the withdrawal of it that will occur in 2009-10. The national accounts, as a guide to macro-economic policy, are being allowed to perform very badly.

■ *Alan Hall is a former professorial fellow in economics at the Australian National University.*