

Dealing Ourselves Out Of The Economic Debate

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If we really do trust the Coalition more to manage the economy, maybe we need to rethink what good economic management looks like, writes Ian McAuley.

On Friday's ABC Breakfast program, Peter Van Onselen, Contributing Editor at The Australian, predicted that the Abbott Government's political strategy next year will be about the economy:

The Government thinks that getting back on an economic discussion, as much as it has been a weak point for them, is potentially their saviour for their falling woes. They think that if they can clump everything together and make it about the economy, voters won't trust Labor in this because of the last six years. They'll stick with them and give them another chance.

That makes political sense, because when voters are polled, "handling the economy" is about the only significant issue where the Coalition holds a clear lead over Labor.

But is that faith in the Coalition justified? Let's look at three planks of its economic policy.

The first plank, revealed in the 2014 Budget, is an attempt to tilt income distribution towards the already well-off. The idea is that, given enough breaks, the rich will save and invest, providing employment for everyone else.

It's a policy based on heroic assumptions about how the rich behave, most notably an assumption that rich people are rich because they are clever and industrious. Suffice to say that this was the disastrous approach known as "supply side economics" or "Reaganomics" in America in the 1980s. If it stimulates any employment it is likely to be among workers in BMW car plants in Bavaria and real-estate agents in Sydney's north shore.

The second plank is about sustaining material living standards as long as possible on the back of the resource boom.

Recent reports on commodity prices, share prices and national accounts confirm that the boom is over – if you think the good times are about to come back, I recommend reading Ben Eltham's recent article. What the boom gave us was an exchange rate appreciation that wiped out firms in trade-exposed industries, a few years of generous profits for foreign investors, and about \$400 billion of capital investment in mining construction, much of which risks ending up as stranded assets.

That's \$400 billion that could have constructed a high speed rail network, laid down fibre to the premises broadband, made significant progress to decarbonising our economy, built the "roads of the twenty-first century", and provided our cities with decent metro and light rail systems – while still leaving enough to sustain investment in the most profitable mining ventures.

That would have meant a slightly lower material living standard over the last few years, but a much more secure base for our future prosperity, and without the economic letdown we are now experiencing.

Over this century so far we have been living beyond our means, accumulating personal debt and failing to re-invest in our public assets. Yet Joe Hockey's advice is to go out and spend at Christmas, so we can run up more private debt, while stimulating the Chinese toy and electronics industries.

The Coalition's third plank is pursuit of "small government", even though Australia has one of the smallest public sectors of all developed countries, and we have pushed privatization to the extent that we are paying far more for poorer services than we would be had we retained public ownership of assets such as roads, airports and energy and water utilities.

The Government has linked its "small government" ideology with the need to reduce the fiscal deficit. That deficit goes back to the Howard Government's profligacy in giving tax cuts and middle class welfare and to the Rudd-Gillard Government's Keynesian stimulus response to the GFC – an orthodox and responsible mechanism of economic management, not a "budget emergency".

But the first thing the Government did on coming to office was to abolish two taxes, not to proceed with superannuation and fringe benefits tax reforms, and to make it easier for multinational firms to shift profits offshore, thus adding at least \$15 billion to the accumulated deficit over the forward estimates period. And

Abbott gloats about this fiscal irresponsibility as his finest achievement – even though the carbon tax and mining tax, though inadequate, were pushing us towards industrial modernisation and smoothing out our dependence on the commodity cycle.

There is huge scope to increase public revenue, as Cassandra Goldie of ACOSS pointed out last week. Through abolishing concessions – for superannuation, for speculative capital gains, for investor housing, for family trusts and for employer-provided cars – our personal tax system could raise much more revenue and be more progressive. Even if middle-income earners have to pay a little more tax, the burden would be a lot less than paying bills for private health insurance, road tolls and tertiary education debt.

All three planks have failed. The Government may make Hockey the scapegoat, blaming his gaffes and political insensitivity. Blaming “poor communication” is the stock standard excuse for a government that cannot face up to the fact that its policies are wrong. In fact it has communicated its policies very clearly.

As Onselen points out, however, they are still relying on the electorate’s faith in their economic competence – a faith that’s hard to explain. In part it may be due to its uncritical support from the Murdoch media, and its vocal champion in the Business Council of Australia, who have been highly critical of the Senate for holding up the government’s so-called “reforms” – as if the economy really needs less social mobility as the poor are locked out of higher education, diversion of superannuation savings into commission agents’ pockets, and a general lowering of the social wage.

A stronger clue comes from Antony Green’s Vote Compass in which he surveyed people’s attitude to issues in the recent Victorian election. One classification he used was along people’s voting intention, and unsurprisingly, Labor and Greens supporters were more concerned about health care, education, the environment and public transport than Coalition voters.

But the most stark result was on “the economy”: only 4 per cent of Greens voters and 5 per cent of Labor voters nominated it as important, while 24 per cent of Coalition voters thought it important.

That suggests that those who see themselves as “left” fail to grasp the economic importance of education, health care, the environment and other issues of their concern. It’s as if they have bought the line that these are just unproductive luxuries rather than essential contributors to our prosperity.

In dealing themselves out of the economic debate the “left” is giving Abbott just the break he’s after.