

Destroy Labor, let them form government: Some open, friendly advice to Malcolm.

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Australia is buggered, and not just because our political system is a fetid pool of toxic waste. Our economy is heading for the same stormy waters, writes Ian McAuley. And with that in mind, here's some free advice for Malcolm Turnbull.

Dear Malcolm,

That was a sobering near-death experience last Saturday night. You and Lucy must have been very anxious as the count progressed.

Now, however, it seems that although you haven't outpolled Labor, the quirks of our electoral system will give you a few seats more than they have.

You are clearly eager to claim victory once the count goes your way, but before you get too far down the track you might think of three options.

Your first option is the traditional Liberal Party approach. Work as hard as you can to destroy Labor rather than developing your own policies. Your predecessor Tony Abbott worked so hard at destroying Labor that at times he forgot he was prime minister. But then on Saturday night Labor bounced back.

If you really want to destroy Labor, here's your chance.

Let Labor form government.

That's because the economic shocks coming to Australia are strong enough to wreck the reputation of any party that tries to govern over the next three years.

In a few weeks, the Brexit shockwaves will hit, but these will be minor compared with the consequences of falls in the dangerously overheated Sydney and Melbourne housing markets. There's nothing like an asset price slump to wreck consumer confidence.

All those investors who believed that capital gains could go on forever were angry enough with Labor's proposals on negative gearing, and they'll be furious when the market eventually does an even more effective job in wiping out their capital gains. They'll descend on the government, loaded for bear.

Then there's that Standard & Poor's report, drawing attention to our huge foreign debt.

That's right – our foreign debt. While the spin merchants in your party have been prattling on about government debt, Australia's foreign debt has been climbing, and in relation to GDP it's the highest of any prosperous developed country.

That would be OK if we were on the verge of a mining boom, but we're on the verge of the hard reality of having to compete in a world that's not going to be kind to a country that blew its fortunes on tax cuts when it should have been spending on infrastructure and education.

And that's not to mention China. Unless the Chinese Communist Party has developed a new model of capitalism that's immune from the business cycle, there will be a correction. A pity we put all those eggs in one basket. A pity your mates in the mining industry frustrated the Rudd Government's modest attempts to tone down the boom.

But it was fun while it lasted, and we could take all those overseas trips and import all those BMWs and Mercedes while the elevated exchange rate sent our own car industry to the wall.

Although Labor has a good track record of managing in tough economic times (think of the chaos if Howard and Costello had been in office during the 2008 financial crisis), the economic shocks on their way will be really tough for the government, particularly when it has to get its legislation through the oddest senate since Federation (what on earth were you thinking when you called a double dissolution?).

Even if a Shorten Government handles it well – and let's face it, Chris Bowen is far more competent than the treasurer you have been putting up with since September – people will blame whoever is in office for the economic hardship they face, and the association of Labor with economic hardship will be indelibly printed in the collective mind.

Shorten would jump at the chance – he's a politician with ambition. But then so are you, so I guess you would lack the discipline to hold back, particularly when you think of how the extremists in your party would react.

So here's your second option.

Take the reins and lead.

Start with a deal with Labor and the Greens to scrap the plebiscite and legislate for same-sex marriage. OK – Tony Abbott and a couple of Liberal senators will be angry, and the Nationals will go ballistic, but you'll re-establish your credentials with the electorate.

Then you can get to work on the hard issues. Go for increases in the GST and the Medicare Levy to fund education and health – Labor would have no option but to support you. Bring back a carbon tax. Bring back indexation of capital gains. Rule out tax deductions for "negative gearing". Tighten the rules for family trusts. Bring back inheritance taxes.

All of that will put the budget back into surplus, and then you can take advantage of our low long-term government bond rate to borrow for transport and communication infrastructure – the investments we should have made during the boom.

Don't forget broadband – remember when you were a technology enthusiast before the Luddites got to you? And stare down the private health insurers, the coal miners, the tax accountants and other rent-seekers.

If you can forget about party groupings you will find enough people in both the Reps and the Senate to put such a package through (isn't that what democracy is all about?)

That way you can improve the government balance sheet, strengthen the nation's economic structure, redirect capital to where it can do something useful, and restore some level of fairness in public finance. Of course, people will find it tough, and those who think they are entitled to evade tax through trusts and negative gearing will be furious, but where are they going to go?

Most people will endure a period of hardship if they understand the reason (you can do a better explanation than "jobs and growth") and if they think the sacrifice is shared.

You may see the right wing of the Liberal Party split off, and the coalition with the National Party will surely end, but that marriage has been showing strains for years. Your party elders talk of a broad church, but to use the same ecclesiastical metaphor, it's been like trying to hold together liberation theology Jesuits, batshit crazy Talibans, and creationist Holy Rollers. Let it go and re-group.

That option may result in a short political life, but it will satisfy your need for excitement. More importantly, you will have served your country. Like Gough Whitlam, you will be able to look back satisfied that you have steered the country through a necessary transition.

Then there's the third option.

Appeasement.

Carry on with what you have been doing since you knocked off Abbott last September. Build a dam for Bob Katter, bail out Arrium and the other firms that will come along seeking handouts as the economy turns down, build a few more netball courts in marginal electorates – there are a lot more of them now.

You will be able to claim, to your credit, that you held the Coalition together in its last ever term of office, and will go down in history as a decent bloke who didn't know how to use power when he had it in his grasp.