

# That Wasn't a Strategy Failure

30 Nov 2010

Victorians who were fed up with poor government services voted for Ted Baillieu. They sure weren't voting for Tony Abbott's economic ideas, writes Ian McAuley.

The results from the Victorian election are more or less settled and Labor's loss has prompted the usual clichés from the political commentariat. "Brand Labor is becoming toxic" was Tony Abbott's reaction. Fran Kelly was true to form in her daily chat with Michelle Grattan on ABC Breakfast yesterday, avoiding any mention of policy whatsoever. Their conclusion was that "the tide is going out for Labor" — whatever that means. Now that Brumby has conceded, the Victorian Labor Party apparatchiks are talking about failures in media campaigns and marginal seat strategies.

When a government which has managed to govern without scandals or serious divisions suffers a six per cent swing, the loss cannot merely be attributed to a failure in campaigning. A closer examination of regional voting patterns suggests policy issues have been at play.

The swing against Labor in the big rural cities — Ballarat and Bendigo — was lower than the state average, as it was in some rural seats. In inner city seats — Melbourne, Richmond, Northcote and Brunswick — the Labor two party vote actually increased. The brunt of the damage to Labor occurred in the remainder of Melbourne, where there were swings up to 12 per cent to the Liberal Party. These swings were most marked in outer suburbs.

Labor's success in the inner city disappointed those who predicted that the Greens would win lower house seats. Some commentators who should know better contrasted the Victorian result with the Greens' success in the same region in the Federal election, thereby declaring that the Greens' vote had hit its peak. In Victoria, however, the Greens were not running against a party which had just dumped its entire climate change policy; Victorian Labor's environmental credentials are far from perfect but they are better than Federal Labor's.

Even so, the Greens did well, picking up between 26 and 31 per cent of the primary vote in those inner electorates, and winning reasonably high support in other metropolitan seats. The Baillieu Government, with a slim majority, would do well to take environmental issues seriously, and to avoid pressure from National Party members to neglect environmental issues.

The bigger problem for the Baillieu Government will be the expectations of restive suburban electors, who have clearly shown their volatility, not just in this but also in previous elections. These are the same suburban electors who almost brought down the Gillard Government with big swings in Sydney, and who will almost certainly bring down the Keneally Government in New South Wales in 2011.

Their anger is about government services, particularly transport, and the distribution of other urban amenities. It is not a call for "smaller government". Melbourne may rate as one of the world's most liveable cities, but those who compile the international rankings focus on the well-provided inner areas; the gloss wears off as one goes to the sprawling outer suburbs, where the roads are congested (and often subject to tolls) and the public transport is non-existent. In this regard Labor's comparative success in country cities and in inner urban regions is not surprising, for in the former electorates there are good government services, little traffic congestion, and in the latter electorates there is good public transport and an abundance of public amenities.

Electors are also angry about price rises. The press often lazily says that the issue is "the cost of living", but it's more specific than that. The cost of living, as measured by the consumer price index, is well under control, but prices of specific items which most would count as necessities are rising very quickly, particularly electricity, water and sewerage. Nationally those prices have risen by 12 to 13 per cent over the last year, well ahead of the general CPI rise of less than three per cent.

The irony is that these political reactions are against policies which one would reasonably classify as "neoliberal" or "right wing" — yet they have resulted in the election of a Liberal government.

In particular, Melbourne's transport problems can be traced to the debt obsession — the puerile notion that all public debt is bad. This obsession, elevated to an economic virtue by the federal Liberal Party, has led to neglect of basic infrastructure such as suburban rail, which, as a productive asset, could reasonably be financed by public debt. (The last extension to Melbourne's train service was in 1929.) It has led to the privatisation of Melbourne's trains, buses and trams, with resulting problems in system coordination and

capacity constraints. (One of the Liberals' promises has been to set up a coordinated transport authority.) It has led to governments using "public-private-partnerships" (PPPs) to fund transport, particularly toll roads.

PPPs are expensive; they are a means of shifting debt off the balance sheet, while leaving the government holding all the political risk and most of the financial risk. They make the same — and sometimes higher — demands on financial markets as public debt. A project funded through a PPP is inevitably more expensive than one funded through public debt, because of the private sector's higher cost of capital. And, particularly in the case of toll roads, there are economic distortions resulting from tolls in an otherwise "free" system. Governments often do deals with toll road operators to force people to use them: that's why there is no tramway or railroad to Tullamarine Airport, for example. In other cases drivers, in order to avoid the tolls, take rat runs through other roads, adding to congestion and pollution, while leaving the expensive private infrastructure un-utilised. (Economists refer to such waste as "deadweight loss".)

Similarly the pain of electricity and water charges can be traced to privatisation, a by-product of the "small government" ideology. Of course, with scarcity of water, and the environmental costs of coal to generate electricity, price rises are inevitable; it would be irresponsible for governments to try to arrest such price rises. But government monopolies can set electricity and water tariffs much more fairly than a private company in a contrived competitive market. In particular a government monopoly can set a low price for the first kilowatt-hours or litres of water, with higher prices for heavy users; this is precisely opposite to the pricing incentives faced by private companies.

The other problem in relation to electricity is the delay in implementing a carbon pricing scheme. A well-designed carbon price, be it through a carbon tax or a cap and trade system, will give the energy supply industry the certainty to invest in new capacity. Our recent steep price rises are largely a result of capacity limits being faced in old and expensive power stations, and the usual way markets ration capacity constraints is with price rises. We have endured the pain of price rises without the benefit of reducing CO2 emissions. Also, revenue raised through a carbon price would provide the funds to compensate those who need help in adjusting to higher prices. Reducing domestic energy consumption requires up front investment in insulation, new appliances, solar water and photovoltaic systems, for example.

Once the Victorian Labor Party recovers from shock, and has run out of excuses to do with its political strategies, it may use its time in opposition to consider its policy failures. Why did Labor so wholeheartedly and unthinkingly sign on to the neo-liberal agenda? Why did it continue with wasteful PPPs and why did it not take back vital assets into public ownership? Why did it not engage with the public in explaining how public debt could be used to strengthen the state's base of assets? In short, why did it abandon the best parts of its traditional platform?

There are warnings too, for federal Labor, along the same lines. It faces the prospect of several Coalition state governments doing what any state government does — shifting problems to the Commonwealth. It, too, has to face these issues.

The greatest challenge, however, is for the Victorian Liberal Party. If the Baillieu Government is to be any more than a one term wonder it has to confront its own party's policies, and allow sound economic management to displace Tony Abbott's puerile slogans about debt and taxes. If it breaks from these ideological shackles it will do a service for all state governments, and should enjoy a strong run in office.