

The Economic Policy Abbott Can't Grasp

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What if Coalition policy reflected the values the party claims to espouse? As Tony Abbott ties himself in knots over economics, Ian McAuley had a go at putting together a credible policy for the Libs.

Last week Tony Abbott released an e-book "A Stronger Australia", a collection of what he calls "a series of landmark addresses that set out the Coalition's plans for our country". "If you want to know what the next Coalition government will look like, you should read this book", he says in the short foreword.

If he is to be taken seriously, the next Coalition government will be tied in knots dealing with irreconcilable contradictions in its economic platform. There will be big spending on infrastructure, parental leave and a standing Green Army, while taxes are cut and the budget is balanced. Its policies will privilege the mining industry, thereby keeping the exchange rate high, while ensuring we "once again have competitive manufacturing industries".

Eliminating the carbon tax, he claims, will save the budget \$4 billion and eliminating the mining tax will save another \$6 billion.

Can elimination of taxes really improve the budgetary position? To get an insight we need to go to the history of a discredited theory called "supply side economics". Arthur Laffer, an adviser to Ronald Reagan, suggested that a tax cut would stimulate the economy to the extent that tax collection actually rises. Laffer was wrong. Tax revenue fell and America's public debt trebled on Reagan's watch.

At least Reagan backed up his wacky ideas with a theory, but Abbott doesn't bother with any explanation. He doesn't have to, because he just knows he's right. His arrogance is most clearly exposed in his statement "As workplace minister, I boosted construction productivity by \$5 billion". That first-person "I" goes some way to explaining his disdain for cabinet colleagues and for public servants who do the hard work of implementing policy.

The book is a lazy piece of work. He hasn't even edited out statements such as "The focus of the next election should be the carbon tax, which will swing like a wrecking ball through the Australian economy." He didn't even bother to change the tense.

In fact, it is no more than a cut-and-paste of the illogical rhetoric that the Opposition has been churning out since Abbott took over from Turnbull three years ago. No one other than a clutch of partisan Murdoch journalists takes such rhetoric seriously. For example, it would be hard to find any economist, on the left or right, who would back up Abbott's puerile criticism of the Government for practising counter-cyclical management in response to the 2008 crisis.

One of the few consolations of opposition is freedom from the bounds of logic, factual accuracy and economic rigour, and Abbott has used that freedom in full measure. But it does not do for a pre-election statement, which should be much more disciplined.

Is it just possible, perhaps, that Abbott doesn't know the difference between sniping and articulating policies?

It shouldn't be too hard, however, to make that transition. To try it out, I went to the Liberal Party website, and, once getting past the "Labor's Rotten" banner, found a section "We believe", a statement of principles which, in contrast to the rest of its website, is reasonably free of misrepresentation and spite. From that, and drawing on a little history of previous Coalition governments, I knocked up what could pass as a credible and winning economic statement for the party:

The Liberal Party has always stood for policies that maximise individual and private sector initiative, which encourage equal opportunity for all Australians, which preserve our natural beauty and environment for future generations, and which support a just and humane society. These principles are enshrined in our platform.

Our government will manage the economy responsibly. We acknowledge that the present Government responded well to the 2008 crisis with a timely counter-cyclical stimulus. But it has since bound our country to a dangerous and meaningless target of a balanced budget, come what may in the uncertain global economy.

We do not tie our hands to such a foolish constraint. If the global economy fails to pick up we will give our economy a needed boost with a modest increase in our already low level of public debt, but we will ensure that it is spent on productive assets, so that our national balance sheet remains strong.

There is a limit to the amount of infrastructure that can be efficiently provided by the private sector, and we have reached that limit. Like the Menzies Government, we are committed to nation-building. We will provide public infrastructure to ensure that businesses and individuals can contribute to their full potential.

In this regard, we will accelerate the rollout of the NBN, which the Government has let get so badly behind schedule.

We note the cynical way the Government has allowed states to be starved of revenue as GST receipts have fallen. Labor has failed to acknowledge the weakness in our tax base. Australia, with taxes at 27 percent of GDP, has nearly the lowest taxes of the developed world and is 8 percent below the OCED average.

Just as the Howard Government had the courage to introduce the GST, we do not resile from the challenge to improve our revenue base and to remove tax breaks — such as concessions for capital gains — which favour speculation over productive private sector investment. We know that vested interests will try to bully us to drop our proposals, but unlike Labor, which sacrificed the public interest to mining companies, we will hold our ground.

Our priority to spend that increased revenue, in line with our commitment to equality of opportunity and social mobility, is education. We will implement the Gonski reforms, but will go further, in ensuring that state schools are once again places where all want to send their children. Australians should not be denied the choice of an excellent education shared with their fellow citizens. We want to see well-educated Australians earning a decent living based on their abilities, rather than living on government subsidies and handouts.

The Liberal Party has always had a preference for market-based solutions over the dead hand of government regulation and protection of coddled industries. Our approach to climate change, which we realize is becoming more serious, will be through market mechanisms. In view of the ease with which the economy has adjusted to the \$23 carbon price, we will raise it to \$40. We will implement the Henry Review recommendations on road-user charging, a wise approach which combines market mechanisms with environmental protection.

We will review the Trade Practices Act to remove remaining pockets of protection from market forces as they apply to pharmacists, taxis and other industries. We will put public and private hospitals on an equal competitive footing — our support for private hospitals will be through Medicare funding rather than through the bureaucracy of private insurance, thus maximising choice and competition.

We acknowledge the great contribution immigrants, particularly refugees from war-torn countries, have made to our economy. Just as the Fraser Government welcomed refugees from Vietnam, so too do we welcome refugees, and will increase our annual intake to 50,000. Through improving normal refugee channels, and cooperating with neighbouring countries, we hope to lessen the incentives to undertake dangerous sea voyages. That is in line with our commitment to justice and humanity.

In government we will also..."

I leave it to New Matilda readers to complete (or amend) the statement.