

What Is Abbott Really Up To?

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Are Tony Abbott's basic economic errors a deliberate distraction from his conservative economic vision? Why aren't the Greens pushing for a broader tax base? Ian McAuley unpacks the Budget replies.

Here's a question: Why was Tony Abbott's Budget reply so full of basic economic errors?

It was laden with statistical abuses (figures comparing Costello's and Swan's budgets), emotive language disconnected from reality ("skyrocketing debt", "a spiral, deeper and deeper into debt", "budget emergency"), sophistry (the implied need for "cost of living relief"), unsubstantiated generalisations ("bad government") and simple fallacies, including a confusion of inflation with wealth (use of house and share prices as measures of wealth) and the unsupported notion that "smaller government" is the path to economic prosperity.

Above all, there was a glaring gap in the Opposition's arithmetic. Abbott's promise to cut taxes, increase spending and balance the budget just doesn't make sense, unless, as is likely, there are yet-to-be-disclosed savage cuts ("cuts to the bone" to use the Government's focus-group-tested cliché) in big program areas, such as health and education.

The Government has picked up some specific errors, such as his claim that there would be a saving from scrapping a green loan scheme, and The Australia Institute has pointed out some basic logical contradictions in his tax plans.

It's tempting to dismiss Abbott's speech as a confused rant, but that would be a grave mistake. The Leader of the Opposition is a skilled communicator. I would even suggest that he may be using these illogicalities and falsehoods as baits, to distract us from his true economic vision.

Abbott's view is deeply conservative in every sense of the term. When he says that the coming election will be a referendum on the carbon tax, he's really referring to a choice between economic modernisation and holding on to our existing industry structure.

Scrapping the carbon tax isn't about reducing imagined cost-of-living pressures or improving international competitiveness as he claims. As a component of cost-of-living it's trivial, and if he were serious about international competitiveness he would not say that cutting the mining tax is "the quickest way to support investment and jobs", because it would also be the quickest way to send the currency back to high levels, thus doing far more harm to competitiveness than our modest carbon price. It's more about halting a transition to a changed economic structure.

His opposition to high-speed broadband needs to be seen in this light. The NBN is what economists call a "disruptive technology", which can present tremendous opportunities for some entrepreneurs, while wiping out firms and industries which fail to adapt. Good for the economy, but not good for old businesses which are too sclerotic to adjust.

The same holds for his opposition to the Gonski reforms. It doesn't matter if our education standards go on slipping. We can leave it to the Chinese and northern Europeans to compete on the basis of human capital. We have mineral resources, and plenty of land to grow grains and fibre – that's our source of prosperity.

Having learned from Howard's WorkChoices disaster, he is guarded on labour relations, simply saying "we will return the workplace relations pendulum to the sensible centre". But he is trapped in an old culture of class struggle between "employers" and "employees". He seems blind to an emerging economic structure where people come together not as "bosses" and "workers", but as people bringing their talents together to create wealth and share the benefits – a change in turn prompted by disruptions to old centres of power and distribution.

There is nothing unusual about his conservatism. The Liberal Party has always experienced tension between its conservative and progressive factions. It has a strong tradition of social conservatism, and social conservatism easily meshes with economic conservatism, as has happened in the USA where the Tea Party has become such a powerful force on the "right".

For most of its 68-year history the party has managed this contradiction reasonably well, but increasingly the economic conservatives – those who in 1999 gave Abbott a one vote majority – are taking over.

Venture capitalist Mark Carnegie got it right when he said earlier this year that of the four serious contenders to become prime minister after September – Kevin Rudd, Julia Gillard, Malcolm Turnbull and Tony Abbott – Abbott was the least likely to support a market economy.

The current political situation, with a Government too timid to articulate its policy clearly, and an Opposition committed to halting economic progress in its tracks, presents a strong opportunity for the Greens to retain their powerful position in the Senate. That is, provided Labor strategists do not repeat their idiocy of 2004, when they pushed Family First ahead of the Greens (thus denying the Rudd Government a supportive Senate), and provided Labor doesn't absolutely mess up the election campaign.

Christine Milne's Budget reply got off to a good start when she said of the Budget that "it does not present a coherent vision of where the country needs to be in 10 years time or of how we face the challenges posed by an increasing global population in a rapidly warming world, the interdependence of economies and our own narrow economic base, as well as our overdependence on resource based industries and the fossil fuel intensive energy sector that drives them".

If Abbott had even a little economic nous, those are the words we might have heard from the Opposition, which would have left the Greens to focus more on specific "green" issues.

Unfortunately, Milne never seemed clear about whether she was attacking the Government, or the Opposition for proposing even worse policies. The Greens are in a difficult position; in my view the Democrats handled their third-party responsibilities better, possibly because they had grown as a breakaway from the Liberal Party, while the Greens have their roots outside the two-party system.

But she did present a theme of economic progress, and, with a few exceptions (such as the Greens' visceral hatred of investment in roads), it presented an economically responsible case for an expanded public sector.

This contrasts with Tony Abbott, whose view (repeated on ABC news), is that government should be "only as big as it needs to be to do what people can't do for themselves", a view which, taken to its conclusion, leaves government with no more than a few functions such as defence and handouts to the poor, leaving health care, education and infrastructure all to distorted private markets.

It's a view pushed by extreme economic libertarians, who cannot bring themselves to acknowledge that there are many things the private sector conceivably can do, but which governments do much better. Whether it's a glib insertion by an economically naive speechwriter or a considered belief is hard to know, but it's worth watching.

What the Greens fail to acknowledge is that their vision would need a much stronger tax base. Milne rightly mentioned the high profits of mining and financial companies as potential sources of public revenue, but these are volatile – they may be suitable for once-off public investments but not as an ongoing tax base.

It's hard for any politician to mention our weak tax base, and to point out that, by comparison with other high-income countries, we collect far too little tax to provide the public services needed in a modern economy, but the Greens are in a better position to do this than any other political party.

Surely they would have more to gain than to lose by raising the inequities and distortions in our treatment of capital gains, superannuation, family trusts, gasoline excise and private health insurance.

Perhaps, ironically, the only voices for increased public revenue are those of state premiers, most of whom are on the right of politics. They have the hard job of delivering much-needed services and public infrastructure, and, being closely connected to business, are less likely than Tony Abbott to sign on to a reactionary economic vision.