

It's The Ideology, Stupid. And The Economy

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The lazy interpretation of Turnbull's successful challenge is to see it as a repeat of the Gillard and Rudd coups in the previous Labor Government. That's enough to fill a few column centimetres, or a few seconds on TV.

But the Turnbull coup is different, because it's about policy – economic policy in particular. Turnbull put it plainly when he said, "The Government is not successful in providing the economic leadership that we need."

Many New Matilda contributors have written about specific economic shortcomings of the Abbott Government. The difficulty facing Turnbull lies in dealing with ideologies within the Liberal Party that have given rise to such bad policy. The Party has at least three threads of economic ideology.

One is Abbott's medieval model – a paternalistic pre-Enlightenment conservatism, dismissive of social, technological and economic modernisation. Abbott had a strong cohort of socially-conservative followers who never quite understood the word "Liberal" in their party's name, and whose religious beliefs had more in common with the fundamentalist sects of Wahhabi Islam than with the social teaching of mainstream religions.

Even if Abbott disappears from public life, his followers are still in the parliamentary party.

A second group is attached to Reagan's "supply-side" economics – the idea that the way to stimulate economic activity is to give opportunities to the rich.

The rich are rich because they are virtuous and wise, and their enterprise will provide employment for all of us lesser mortals. Hockey's first budget was a textbook expression of such an ideology. Their followers too have a religious basis for their ideas, to be found in the harsh philosophy of Calvinism (which has its followers even among Catholics like Hockey).

Then there are Burkean conservatives, who accept economic progress, but who seek to contain its pace. Burkeans are still to be found in successful Liberal or Coalition state governments, but they have been largely purged from the federal Liberal Party. There are too few of them to give Turnbull any trouble – or any support for that matter.

There is also an overlay of general hostility to government, to be found in the Liberal Party's platform, where it states "businesses and individuals – not government – are the true creators of wealth and employment", an absurd ideology because it devalues everyone and everything, from the local police force through to the roads we drive on, as if they are simply frivolous overheads rather than essential aspects of our economy.

Miriam Lyons and I deal with this absurdity in our book *Governomics: can we afford small government?*

The Rudd-Gillard Government, by contrast with the present parliamentary Liberal Party, was reasonably united on policy. Its defining characteristic was pragmatism – in part necessitated by its lack of a parliamentary majority in its second term.

Its problems were more about personal ambitions, factional power struggles and management styles than about ideology. It's usually parties of the "left" that tear themselves apart on internal ideological differences, while parties on the "right" more or less muddle through. But in Australia our situation is almost entirely the opposite. Or, perhaps, Labor is no longer a party of the "left".

Turnbull has to find a path through these ideological tensions within his Party, as well as dealing with the personal resentment of those he will dump from the ministry.

He also has to find a way to work with the National Party, a party torn between the conflicting economic interests of miners and farmers, united only in their dislike of urban liberals who support same-sex marriage and an Australian Republic.

If all were going well with the economy, Turnbull's task would be relatively easy. In times of economic growth various constituencies can be accommodated without inflicting too much pain – "Pareto" solutions in economists' terms.

But our economy is in a poor state and is facing strong headwinds, in part because of Abbott's mismanagement over the last two years, but the roots of our problems are deeper. They have to do with our squandering the proceeds of the boom years.

Successive governments, particularly the Howard Government, have not dealt with emerging structural weaknesses – our trade dependence on too few commodities in too few markets, our unstable exchange rate, our growing regional disparities, our widening inequalities in wealth and income, our accumulating levels of foreign debt, our ramshackle transport and communication infrastructure, our distorted tax incentives favouring short-term speculation and rent-seeking over productive investment, our declining education standards, and, of course, our failure to deal with climate change.

Unless we confront these problems we will drift into a state of complacent poverty, as occurred in Argentina and other once-prosperous South American countries last century.

The solution is not complex. In general terms it's about making sacrifices now in order to enjoy future benefits – in economists' terms it's about switching from consumption to investment.

Some of that investment has to be in the private sector, particularly as we make a transition to a low-carbon economy.

Much has to be in the public sector, including in education, infrastructure, environmental repair and in helping people and regions deal with inevitable structural change.

Those deficits we have accumulated dwarf our comparatively minor government fiscal deficit.

That means securing a stronger public revenue base. We cannot undertake such a transformation with one of the weakest tax bases of all developed countries (Abbott was irresponsible in fuelling the idea that Australia is a high-tax country, and the Labor Party has been equally irresponsible in not challenging that lie).

We need taxes that share the burden, and a good place to start is on superannuation tax concessions. We need to shift incentives to favour long-term investment by reverting to a properly indexed capital gains tax system, abolishing privileges for family trusts, taxing employer-provided cars, and reining in incentives for highly-leveraged (“negative gearing”) housing speculation.

We need taxes that raise revenue while improving incentives for efficient resource allocation – carbon taxes and resource-rent taxes serve that purpose.

In a comprehensive tax reform, there may be a case for raising consumption taxes, but not as a means of handing the proceeds back in the form of a lower company tax. Few people point out that, thanks to dividend imputation, our effective company tax rate is actually very low by world standards.

Those are the hard realities we have to confront.

If Turnbull can help us confront the fact that our future prosperity lies in giving up a little consumption now, and contributing to our common wealth, he will have earned the trust of the electorate.