

Abbott Will Get a Taste of his own Direct Action

26 August 2013

Tony Abbott's 'direct action' economic policy will be a disaster for the nation - and for the Liberal Party. Ian McAuley on why Abbott will have to fight his own team sooner or later.

Economic management is probably the main issue in the coming election, but have we become too obsessed with fiscal indicators such as debt, the budget deficit and short-term budget costings, while paying too little attention to longer-term questions about economic structure?

To start with fiscal management — a government's capacity to use taxation and spending to sustain a reasonably stable rate of economic growth, while keeping unemployment, inflation and public debt within bounds — the Government has done an impressively good job over the last six difficult years. That view may not be shared by Murdoch journalists or shock-jock radio talkback hosts, but it's the considered assessment of most independent economists, international ratings agencies and the IMF.

That's all in the recent past, a period when the rest of the world has experienced economic turmoil and Australia was experiencing the benefits and costs of a commodity boom. What about the future?

In the election campaign there is a great deal of attention given to the contending parties' estimates of government revenue and spending over the four-year forward estimates period. The amounts under contention over that period are not great. Even the high estimate of \$70 billion as the Coalition's fiscal gap over four years represents an annual additional deficit of only 0.5 per cent of GDP — not a good look, but minor compared with the deficits in most other developed countries, which are continuing to accrue very high levels of debt.

It is reasonable to criticise the Coalition for its secrecy, sneakiness and sloppy accounting, but a gap of \$70 billion over the short term hardly represents fiscal recklessness, and may be necessary if economic growth is sluggish. Of more concern are Tony Abbott's longer-term fiscal plans which, in a rare display of candour, he outlined at his campaign launch:

"Within a decade, the budget surplus will be 1 per cent of GDP, defence spending will be 2 per cent of GDP, the private health insurance rebate will be fully restored, and each year, government will be a smaller percentage of our economy."

That policy embodies a basic contradiction. Only strong economic growth would allow a government to maintain services, as he promises, while cutting taxes. But under conditions of strong growth governments should not continue to run deficits. Under the situation Abbott is proposing, by 2023 Australia may well have had 16 continuous years of budget deficits. That's not sensible counter-cyclical management; it's Greek style populist irresponsibility.

Unfortunately, the media's obsession with short-term budgetary figures has crowded out far more important longer-term economic issues — not only fiscal policy, but also the more general policies governments pursue in order to maintain prosperity and a fair distribution of income, where there are significant differences between the big parties.

In another era we could have confidently said that parties of the "left" such as Labor, in comparison with parties of the "right" such as Liberal, would place more emphasis on government intervention over the play of market forces, and more emphasis on distribution over economic growth.

But those assumptions no longer hold up. The Hawke-Keating government brought about widespread economic liberalisation. The Howard government was generous on distributive welfare. And the Liberal Party itself has generally been in coalition with the National Party, a party with an historical reputation for "rural socialism".

So what can we say now about the economic policies of the two main parties?

To start with Labor, we have the last six years as a guide. In difficult parliamentary circumstances it has undone some of John Howard's welfare excesses, and its policies on education, carbon pricing and broadband are those which contribute to industry adjustment and modernisation. Like tariff reductions in the past, they have met with opposition from existing businesses, but they pave the way for the emergence of new businesses.

Over that period, however, Labor failed to underpin these policies with a well-communicated set of principles – or a “narrative” as some would say. Carbon pricing, in fact, resulted from a political deal rather than any policy commitment to industrial transformation, and Rudd’s proposal to accelerate the move to a low-priced ETS looks like a backdown. Also Rudd’s obsession with “a country that actually makes things” – namely, cars – harks back to the days of industry protection.

This is not just poor communication. It’s a manifestation of a problem with origins in the early 90s, when, under the influence of powerbrokers such as Graham Richardson, gaining and holding office came to take precedence over implementing an agenda – a priority with disastrous consequences in the NSW Branch of the Party. The Federal Party has been immune from problems of corruption, but it has become a less friendly place for people with ideas, principles and conviction, such as Lindsay Tanner and John Faulkner. Federal Labor is now largely an ideology-free zone.

The same cannot be said for the Liberal Party. While it does a good job at presenting a united front, it has several different conflicting ideological currents. A starting point is to classify party members as “dries” and “wets” or “liberals” and “conservatives”, but it’s more complex. The party is a haven for social conservatives, who oppose same-sex marriage, who don’t accept multiculturalism and who strongly support ties with the British monarchy. There are those who combine ideas of market liberalism with social liberalism, while others separate out such views. There are many locked into a nineteenth view of the economy as a class struggle between labour and capital: Eric Abetz’s embarrassing remark about intervening on the “employers” side in wage settlements reflects such a view.

Contrasting with this view are a few – very few – who understand that the successful businesses which will thrive in the years to come are those where people come together not as “employers” and “employees” but with a common purpose to create and share wealth, and in workplaces where human capital is no less important a competitive asset than financial capital. The Liberal Party also has its fair share of born-to-rules.

Tony Abbott, however, comes from none of these traditions. He is deeply conservative on all fronts, a conservatism which extends even into a rejection of markets, a point few have grasped, but which has been pointed out by businessperson Mark Carnegie. His “direct action” approach to markets eschews price signals in favour of private sector paternalism, and is a feature in most of his big-ticket policies: climate change, the “Green Army”, the people smuggler boat buyback, his plan to milk big-business to fund parental leave, and his strong belief in private health insurance and salary packaging.

He has stood up for Tasmania’s logging industries – the epitome of a traditional low-value-added environmentally-destructive old extractive industry. He has no enthusiasm for industrial modernisation or for seeing Australia become a clever country – it’s quite OK if we remain a natural resource exporter for cleverer people to convert into value-added products. His strong opposition to the NBN and his reluctance to accept the need to improve school funding are cases in point.

His “no surprises” promise is really a promise to freeze Australia’s economic structure as an extractive economy. Such an economic policy may yield a few years of continuing prosperity, but as our deficit on current account worsens (the deficit he dares not mention) it’s a path to long-term economic stagnation.

Some, such as Robert Manne, suggest that his reactionary views are out of an old stream in the Labor Party which broke away to form the DLP in the 1950s, and I have suggested that they emerge from a cult in British Catholicism known as “distributism” – anti-modernisation, anti-Enlightenment values, anti-science, anti-capitalism, anti-state, and pro an imagined pre-Reformation benign feudalism. Whatever its roots, his conservatism is out of step with both “left” and “right” thinking (and is a long way from contemporary Catholic social teaching).

So, what are the economic choices? A re-elected Labor Government would probably muddle through with what could be called “opportunistic progressivism”, but lacking conviction. The economic policy of a Coalition government is harder to predict, because it would depend on the extent to which Abbott could hold on to his authority and on to his position. Assuming that the Liberal Party has not completely abandoned economic responsibility, it would have either to sack him or to check his power severely: either way they would be dealing with a determined fighter.

As we face uncertain economic times there is the possibility that an Abbott-led Liberal Government could make the Whitlam period look like a time of political tranquillity.