

The Australian

PM rebuilds the base to go back to the future

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DESPITE the devastating Christchurch earthquakes, New Zealand is undertaking a fiscal consolidation twice the size of Australia's.

Britain too beats Australia hands down in the fiscal consolidation stakes, improving its cyclically adjusted deficit by 3.2 per cent of gross domestic product over the three years from 2011-12, as compared to Australia's 2.7 per cent. And even in the US, congressional gridlock has not prevented a consolidation just 0.2 per cent of GDP smaller than that Wayne Swan unveiled in his budget.

So much for the government's claims about being a world beater.

But budgets are not an exercise in fiscal machismo. Rather, they should be about making prudent use of taxpayers' money to address the nation's needs.

And it is in that respect that the budget is especially disappointing, for it does nothing to reverse the ever greater redistributive spending that has been this government's hallmark.

The facts are simple. Kevin Rudd, with some justification, referred to the Howard era as years of "reckless spending". During those 11 years, outlays on health, education and welfare increased annually by an average of just under \$5 billion in real terms.

But even if one assumes the 2012-13 targets set out in the budget will be achieved, under Labor health, education and welfare spending will have increased by \$9.4 billion a year.

The unsurprising result is that that is where the jobs are.

Under Howard, health, education and public administration accounted for some 30 per cent of the growth in employment, with the bulk of new jobs being in the private sector.

But since Labor was elected, that share has increased to European levels, with 55 per cent of job growth being in the public sector or in activities that mainly depend on public spending.

The sheer scale of the expansion is unprecedented. During the Whitlam years, commonwealth outlays on health, education and welfare increased annually by barely \$22 per capita, in today's dollars; this government, in contrast, has been increasing its social spending each year it is in office by an average of \$430 per man, woman and child.

But it would be a mistake to view this as mere extravagance. Rather, it is a deliberate strategy, however ineptly implemented, aimed at re-creating, in new form, the power base on which Labor historically relied. That historical base itself relied on redistribution, which has long been a feature of Australian society. Already by 1910, Australia was far more redistributive than most other high-income economies, devoting 1.1 per cent of its GDP to welfare.

But what made Australia distinctive is that the massive growth of the welfare state in the 1950s and 60s largely passed us by.

From 1949, when Robert Menzies returned to the prime ministership, to 1970, welfare's share of GDP increased by only three percentage points; in western Europe, the increase was seven times that.

Yet the Australian exception was no sign of virtue. Rather, it arose because our redistribution did not primarily involve public spending. Instead, it occurred through tariff protection and the industrial relations system, which took income away from efficient primary exporters to support high wages and employment in manufacturing and services.

Those indirect income transfers kept headline average tax rates low. No less importantly, the corporatist bargain on which they rested vested power in industry associations and unions that were as lacking in transparency as they were uninterested in efficiency.

Set against that bargain, the Whitlam years shifted power to Canberra and established the framework within which the increasingly dysfunctional corporatist model would be dismantled.

The replacement of the indirect transfers it effected by targeted social spending was at the heart of the Hawke and Keating governments.

But given the collapse in the 80s of Australia's terms of trade, the option of funding that spending through taxes on export industries no longer existed. Rather, it could be sustained only by dramatically higher productivity.

As only efficiency could pay for equity, micro-economic reform was ultimately unavoidable. But it came at the price of a structural weakening in Labor's traditional power base and, most critically, of an existential threat to the unions.

It is her determination to reverse that erosion that makes Julia Gillard a reactionary in the literal sense of the term: for just as Deakinite liberalism taxed Australia's agricultural wealth to entrench sectional interests, so Gillard's objective is to use the proceeds of the resource boom to restore Labor's lost sources of power.

The reversion, unparalleled in the advanced economies, of the IR laws towards union-centred arbitration, the de facto renationalisation of telecommunications, the recrudescence of "made-to-measure" assistance, the unabashed favouritism to union super funds, the recycling of the carbon tax, all form part of this macabre version of Back to the Future.

And so does the seemingly unstoppable rise in social spending and in the growth of the unionised, Labor-oriented, clientele that depend on it.

Little wonder the government's refrain is that taxes must rise. Little wonder too Gillard clings so desperately to office. For she is not playing ordinary politics, in which tomorrow is another day.

Rather, tomorrow is another world altogether, and one only power today can allow her to mould. Control now is therefore incomparably more valuable than the potentially spurious hope of a future turn.

That both escalates the stakes, bringing the kind of total politics in which nothing is barred, and reshapes the relationship between politics and policy.

Bob Hawke and Paul Keating sought to address the policy problems and then make the politics work; for the Gillard government, policy is merely the continuation of politics by other means.

Whether that will help the government escape its spiral of sleaze and incompetence remains to be seen. After all, as NSW Labor so clearly showed, once the disgusted have left, it is the disgusting that remain, making decline all the more difficult to undo.

Federal Labor is still far from that, and entrenched parties

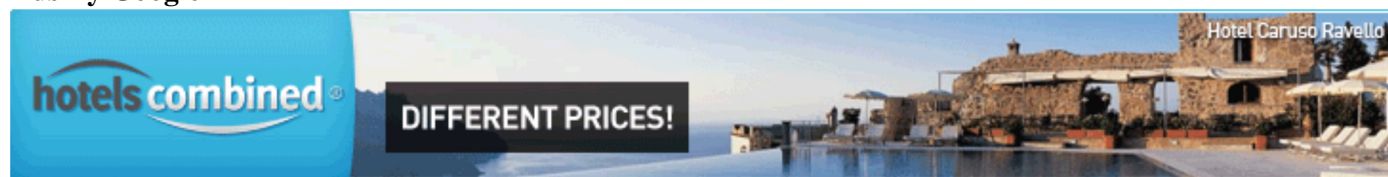
can find phoenix-like powers of resurrection.

But whatever the ultimate outcome, what is certain is that the primacy of politics is inimical to good policy.

Just ask the Europeans. They know that in Greek, as in Italian and Spanish, the word for policy is the same as that for politics.

Like Moliere's Monsieur Jourdain, Gillard has therefore been speaking a foreign language without even realising it. Pity it is one she doesn't understand.

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