

THE AUSTRALIAN

Something rotten in our public sector

HENRY ERGAS THE AUSTRALIAN SEPTEMBER 02, 2013 12:00AM



Illustration: Sturt Krygsman Source: TheAustralian

ACCORDING to Kevin Rudd, we mustn't put all our eggs in the one basket. Come Saturday, the Australian people will at last have a chance to tell him un oeuf is enough. But getting rid of Labor's fiscal mess will be far more challenging than throwing out a rotten egg.

Like so many of its efforts, Labor's own attempts at budget repair have verged on burlesque. Initially, its plan was to increase the revenue base to fund permanently higher spending. To that end, Labor undertook the most far-reaching expansion of the tax base in decades with the Minerals Resource Rent Tax and the carbon tax.

While the GST replaced other taxes, Labor's new taxes were intended to dramatically boost the tax take. But their amateurish design ensured the opposite, making these the first taxes in Australian fiscal history to cost significantly more than they raised.

So it is not for want of trying that revenue growth has lagged outlays; it is because Labor couldn't even get the "tax" part of "tax and spend" right. As that became apparent, Labor increasingly resorted to "structural saves" that were the fiscal equivalent of coitus interruptus: constant fumbling, much huffing, no consummation.

Yet Labor's incompetence in no way lets an Abbott government off the hook, or diminishes the risks involved in addressing its fiscal inheritance. Indeed, the greatest error Abbott could make is to concentrate on returning to surplus as quickly as possible.

That is not because balancing the budget would drive the economy into recession: as even Paul Krugman has accepted, where monetary policy has room to move, reductions in public spending are unlikely to prove contractionary, as their effects are offset by lower interest rates and exchange rates.

But international experience shows short-term fiscal turnarounds rarely prove durable. Invariably, they depend on gimmicks, such as arbitrary "efficiency dividends", fiddles to indexation and toying with the timing of payments

and receipts.

As these quickly reach their limits, the underlying dynamic of expenditure growth reasserts itself, swamping any savings.

Durable consolidation involves neither tinkering nor slash and burn; instead, it "re-engineers" public spending from the ground up. That requires shedding functions best carried out by others while restructuring remaining functions to secure genuine efficiencies.

Canada's comprehensive program review, which ran from 1994 to 1996, is a case in point. Undertaken by the centre-left government of Jean Chretien, its dual focus was on "role realignment" - improving the allocation of functions in the federal system - and policy redesign. Activities such as job training were returned to the provinces, with the central government no longer intruding where the provinces should be accountable; others, such as environmental protection, were streamlined and reformed.

Overall, the review reduced public spending by about 5 per cent of GDP and cut public service jobs by 20 per cent, allowing Canada to run budget surpluses until 2007-08.

Many areas of our public spending cry out for such systematic re-examination. Benefits for families with children, for example, are a muddle of often overlapping, sometimes inconsistent, credits, rebates, deductions and direct payments; even putting Abbott's paid parental leave scheme into the mix, careful reforms would yield a system that gave more support, more equitably, at less cost.

Equally, transitioning health funding to the competitive social insurance model recommended by Rudd's Health and Hospitals Reform Commission would extend choice, enhance cost control and reward service quality. And building on Gonski, a move to school vouchers could empower parents and educators, rather than bureaucrats and unions.

Finally, pension reforms in the Nordic countries show retirement-income systems can be made affordable without the constant chiselling that has been Labor's hallmark.

But none of that can be done quickly. Yes, audit commissions can frame a broad agenda; but real change requires long-term commitment. And it demands a very high level of policy capability in the public service.

Unfortunately, it is by no means certain that key departments have the capacity to advance, rather than hinder, that reform process. It would be a serious mistake to blame Treasury for Labor's errors; but it would be disingenuous to forget Treasury's eagerness to act as a cheerleader, rather than mere adviser, for one misjudged intervention after another. And the culture underpinning the new "Treasury line" has become widespread, thanks also to appointments processes that have made the public service's top ranks a self-perpetuating club.

But essential as public service reform is, the ultimate responsibility for bringing spending under control lies with the government.

To succeed, it must redress public expectations that have been driven sky high in the campaign atmosphere that has prevailed since 2010. Yet it takes more than an election to change a nation's mood; and though Abbott has done well in signalling the need for budget discipline, he must constantly remind Australians that fiscal constraints are not a choice but a fact.

Further improvements to the budget process, such as disclosing the 10-year cost of policy changes, would help drive that home. And a degree of bipartisanship about budget realities would also help.

Here too, the Nordics provide useful models, with their fiscal sustainability commissions that typically include former senior economic ministers from both sides of politics. However improbable it may seem, even robust democracies can seek common ground in what appears to be fractured terrain.

Not that Rudd has ever been open to that endeavour. Instead, more than any other Australian politician, he has embodied Dryden's portrait of the demagogue: "In friendship false, implacable in hate, resolved to ruin or to rule the state." Now, incapable of explaining, much less exorcising, his past, he is reduced to projecting fear, not hope, just as he did in his blood lust against Julia Gillard. With Saturday fast approaching, so is the reckoning.