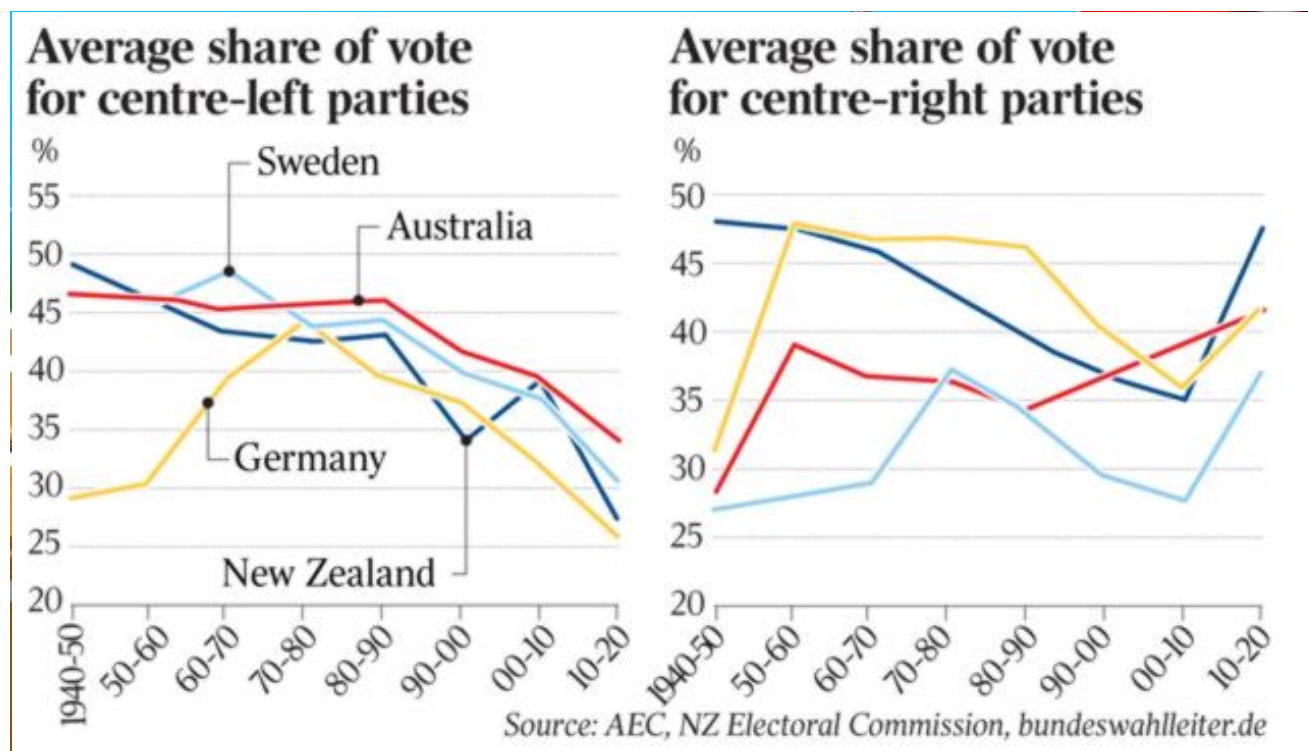


THE AUSTRALIAN

Shorten fuels the voters' illusions

HENRY ERGAS THE AUSTRALIAN JULY 07, 2014 12:00AM



IN the house of the hanged, said Cervantes, it is unseemly to talk about the noose. But someone needs to remind Bill Shorten of Labor's fiscal record. From 2010 on, every day brought pledges of a speedy return to surplus; in the end, all Labor left was a sea of red ink.

Given that record, one might have expected the Opposition Leader to do whatever he could to re-establish Labor's fiscal credibility. Instead, while opposing virtually every savings measure the government has proposed, he has had nothing to say about what Labor would put in their place.

In part, Shorten's goal is to ensure Tony Abbott can't deliver the surplus Labor so spectacularly failed to achieve. But his approach also reflects a simple assessment: that voters prefer vast unfunded promises to bitter budget realities. And far from helping the electorate confront the home truths, Shorten has opted to fuel its illusions.

For sure, Shorten vaunts the Hawke government's achievements, including the tough budgets of 1987-89; but he praises those efforts only so as to bury them. Placing hurdles rather than handrails on the path to fiscal sustainability, Shorten remains wedded to the recklessness of the Rudd and Gillard years.

Unfortunately, Shorten is not alone in turning his back on economic good sense. Beginning 30 years ago, from New Zealand to Scandinavia, centre-left governments reined in welfare programs, cut taxes and opened markets to competition. Now, with even the usually moderate Swedish social democrats endorsing a hard-left, "red-green" coalition, that era is well and truly over.

The change reflects perceptions of electoral realities. Originally, centre-left theorists thought that

embracing a “third way” would broaden their electoral appeal without compromising their working-class constituency; like Richard Nixon going to China, their positioning on the Left meant they, and only they, could afford to take the tough measures needed to ensure prosperity. As a result, good policies and good politics would march hand in hand.

Events, however, have not borne out those expectations. On the contrary, the traditional social-democratic voting base has fractured, shifting partly to further-left parties, such as the Greens, partly to centre-right parties, and partly to neo-populist movements that better express that base's cultural values.

As for the more affluent voters, they have proven costly to attract and retain, leaving the Centre-Left stranded.

Denmark is a case in point. In the 1970s, 55 per cent of manual workers voted for the social democrats. However, starting in 1993, far-reaching reforms tightened eligibility for social benefits, linking them more closely to retraining and strengthening work-availability tests.

The “flexisecurity” those reforms provided bolstered Denmark's labour market; but the social democrats' traditional electorate withered away.

By the 2001 election, 30 per cent of unskilled workers voted for the neo-populist Danish People's Party, while only 25 per cent remained with the social democrats.

And the centre-right Venstre party also picked up working-class votes, as the party's commitment to reduce taxes was more credible than that of its centre-left rivals.

Similar trends have occurred in Germany, where the social democrats came to power in 1998 committed to capturing the middle ground.

Under chancellor Gerhard Schroder, the SPD-led government's “Agenda 2010” reshaped the German labour market, raising the pension age and nearly halving the ratio of unemployment benefits to previous earnings. The economic benefits proved durable and substantial; but the political costs were also high.

In 1998, 46 per cent of unionised workers and lower-tier service sector employees had voted for the SPD; by 2009, that share was down to 20 per cent. Faced with those trends, the SPD has reversed course, demanding, as the price of its participation in Chancellor Angela Merkel's “grand coalition”, measures which undo key parts of the Agenda 2010 changes.

As well as lowering the pension age in a country massively affected by population ageing and imposing rent control in major cities, those measures include introducing a minimum wage that will affect about 14 per cent of workers nationwide. That risks pricing unskilled workers, such as migrant women, out of the jobs that have boomed in recent years; however, like its Australian counterpart, the SPD values the gains higher wages will bring its core constituency more than the pain unemployment will inflict on the poor and vulnerable.

But whether jettisoning good policy will yield enduring electoral dividends is far from certain. The reality is that since the 1970s, support for centre-right parties has tended to rise, while that for centre-left parties has fallen virtually everywhere, with changes in party line having few lasting effects.

Nor are the centre-left parties' woes surprising, as they are trying to do the impossible: to preserve the publicly funded employment on which unions now overwhelmingly rely; to entrench labour-market regulations that favour insiders at the community's expense; to retain social security systems whose costs

continue to mount; and yet to attract the votes of an ever-expanding but tax-shy middle class, without which they cannot govern. Little wonder their rhetoric has drifted into incoherence.

But while the political benefits of the Centre-Left's flight from reality are uncertain, the economic costs are not. And, as French President Francois Hollande has discovered, those costs eventually inflict a crippling electoral price.

None of that, however, will deflect Shorten from the approach he has adopted. That would require a willingness to sacrifice immediate gains for longer-term consequences, like John Howard did in supporting the Hawke government's reforms. Ultimately, Howard benefited too, as those efforts left a surer basis for sustainable growth, while the show of responsibility strengthened Howard's authority.

But Howard had convictions; Shorten only has interests. Believing nothing, he hopes voters will believe anything. Yet the mess Labor left behind cannot be so readily forgotten. Unless Shorten learns from it, Labor will join the brain dead of international social democracy; and the noose that swung for Kevin Rudd and Julia Gillard will also swing for him.

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