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Make the most of your troubles, Tony

HENRY ERGAS THE AUSTRALIAN JULY 14, 2014 12:00AM



Illustration: Eric Lobbecke Source: Supplied

DEFEAT can be turned into opportunity if it is properly managed. With budget measure after budget measure risking rejection in the Senate, the government should use the threat it faces to improve the measures, strengthen public understanding of why they are needed and lay surer foundations for continuing reform.

The difficulties that involves are obvious. But bemoaning Clive Palmer's recklessness and Labor's irresponsibility will do nothing to address them. Under John Howard, the Coalition dominated Australian politics because it offered workable solutions to broadly experienced problems: jobs, pressures on families, the uncertainties that followed 9/11. Yes, a fractious, antagonistic Senate was a serious obstacle; but while the Coalition's initiatives resonated with the public's concerns, that obstacle could be managed, all the more so as the menace of a double dissolution was credible.

Now, the Coalition's greatest challenge is not its opponents' malicious antics; rather, it is voters' hostility to proposals that clash with Tony Abbott's pledge of "no surprises", are individually vulnerable to criticism and taken together, do not cohere. Reconsidering those proposals is crucial to the Coalition's prospects.

That cannot be done without painful concessions. Of course, when concessions loom, it is tempting to instead end like Cyrano de Bergerac, whose death in Rostand's play is made palatable for the audience by knowing that artistic truth has triumphed. "Falsehood! Compromise! Cowardice!" cries Cyrano: "Surrender? No! Never!"

But Abbott must show he is wiser and wiliier than the unfortunate Gascon. And in doing so, there is no better place for him to start than his own parental leave scheme.

The scheme has real merits; but its high cost grates with the message of fiscal restraint. The government has therefore been in the untenable position of advocating harsh cuts in entitlements on the one hand while vaunting an expensive new welfare program (some of whose benefits go to the well-off) on the other.

Combined with doubts about the scheme in the government's own ranks, the inconsistency has both undermined the credibility of the claimed "budget emergency" and robbed the Coalition of any political dividend from its proposal. Given that lack of community support, the scheme stands little chance of surviving the Senate.

There are reasons to lament that. But in addition to taking pressure off the budget, the difficulties should prompt a reassessment of the proposal itself.

After all, it would make sense to view parental leave as merely one element in a redesigned package of support for families, simplifying a vast, poorly integrated set of payments. Moreover, that re-engineering should extend to family benefits, whose purpose of recognising the costs of having children has been damaged by endless tinkering. With the McClure report and the Productivity Commission's review of childcare providing valuable inputs, the government has a chance to put these assistance measures on a fiscally responsible basis.

One option for advancing that process would be a reference to the Productivity Commission, giving it until the end of the year to report on a streamlined approach to family support. As well as mobilising intellectual grunt, that would provide a transparent forum in which arguments could be tested, and some of the more ludicrous claims put to bed.

Exactly the same applies to the Medicare co-payment. Labor's criticisms of that co-payment are absurd; but while there is a compelling case for improving price signals in primary care, there are complex issues about those signals' design and their interaction with the broader health system, including the Medicare safety nets and private health insurance.

So far, the government has not convinced health policy experts that these issues have been adequately addressed.

The appearance of not having properly done its homework, and the myriad concerns about the proposed medical research fund, have worsened the already arduous task of selling a painful change.

Here too, a reference to the Productivity Commission, on fees and charges in public health, has a lot to offer. Sure, the welfare lobby will argue co-payments are inequitable. But sound policymaking has nothing to lose, and everything to gain, from forcing those contentions into the open.

Last but not least are mooted reforms to higher education, including fee deregulation and increased interest rates on student loans. Those moves are eminently sensible; but they do raise difficult questions.

There are, for example, serious risks in deregulating fees without changing the loans scheme so that universities have incentives to set fees at levels that are likely to be repaid. And long experience shows it is unwise to remove price controls if barriers to entry remain in place. Getting these questions right deserves greater attention. So does a rigorous demonstration that the reforms will enhance equity, including by helping to fund broader access to student loans.

Of course, all that will come at a cost in terms of timing and substance. And negotiating with Palmer, his tactics reeking of matured rancour, is itself a high price to pay. But as it struggles with the concessions it will have to make, the government could do worse than remember the conditions for compromise John Stuart Mill framed in the cauldron of 19th-century politics.

It is morally defensible to compromise, he said, if the time is not ripe to realise your preferred measures, your critics' claims have some merit and the compromise would not reverse progress already achieved. Yet the most important criterion, Mill argued, was that the compromise, no matter how short it falls, "embodies or recognises" the principle at stake.

Achieving a better balance between benefit and obligation; advancing towards fiscal sustainability; and showing ordinary Australians the government takes their concerns to heart: these are all principles well worth embodying, and hence well worth compromising for.

But it is only by carefully reconsidering its proposals that the Coalition can hope to get the compromises right.

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