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Big picture must frame reform

HENRY ERGAS THE AUSTRALIAN AUGUST 18, 2014 12:00AM



Illustration: Eric Lobbecke Source: Supplied

HOWEVER uncertain the future may be, what cannot happen will not happen. In Australia's case, we cannot run large budget deficits forever. At some point, debt accumulation, combined with loss of confidence and external shocks, will force painful adjustments.

Last week's news from Europe shows just how painful those adjustments can be. After modest signs of recovery, the eurozone has slipped back into zero growth, with even Germany, its powerhouse economy, sliding into negative territory. While the European Central Bank is ramping up its interventions, monetary policy has proven more effective in preventing collapse than in reigniting expansion. With government after government reaching the limits of indebtedness, the eurozone seems set for a lost decade.

Nor is there any doubt who is paying the price. Recently released OECD data shows that poverty has increased most in the countries where the fiscal crisis has been most severe. On even the narrowest definition of the poverty line, the proportion in poverty has more than doubled since 2007 in Ireland and Greece, while nearly doubling in Spain. And even countries with well-developed safety nets, such as The Netherlands, have struggled to maintain their effectiveness as slower growth and fiscal constraints bite. To make matters worse, stagnation is fuelling neo-populist movements, such as France's Front National, whose opposition to economic reform will entrench Europe's difficulties.

It is therefore all the more ironic that Labor and the Greens are relying on the "F word" — fairness — to block even the most gradual of returns to fiscal sustainability. A rhetorical variant of Harry Potter's

invisibility cloak, merely mentioning the F word seems sufficient to excuse Bill Shorten or Chris Bowen from articulating any coherent alternative to the policies the government has proposed, as if an indignant sense of entitlement would itself pay the bills and ward off the day of reckoning.

But that is not to argue that fairness is irrelevant. On the contrary, there are sound economic and social reasons for protecting individuals and families from brute bad luck. What is clear, however, is that we cannot continue to do that as we have in the past, but must shift even further from passive assistance to helping all to help themselves. It is only by redefining the bases of public spending that we can reconcile fiscal sustainability with widely held social goals.

Unfortunately, the government has done a poor job of nesting its proposed budget measures in such a longer-term program of reform. It is not just the occasional gaffe, such as Joe Hockey's Marie Antoinette moment ("Let them take buses"), that is troubling: it is the absence, in several key policy areas, of a broader strategy that gives those measures sense.

Health is a case in point. Sure, a properly designed Medicare co-payment can help signal the cost of healthcare while still protecting those who need care but cannot afford it. However, the government is also increasing the standard co-payment for pharmaceuticals by 13.5 per cent, while raising the threshold at which the PBS safety net cuts in by 10 per cent a year for four years. Yes, the public subsidy for costlier medicines will remain large; but it is clear that some of the risks associated with ill-health are being shifted back to individuals and families.

The difficulty is that we are not providing any means by which those who will now bear those risks can insure against them. No changes of substance are being made to the regulations that prevent private health insurance from covering the full range of healthcare outlays; nor has anything been done to improve the efficacy of the PHI market, increase access by low-income families to that market and thus empower PHI as a viable replacement to public insurance. Little wonder the proposed measures have been portrayed as ad hoc grabs into people's wallets.

The lack of a sensible framework that can be explained to voters is also telling in the proposed parental leave scheme. Despite the uproar, there is a compelling case for some form of economy-wide parental leave; but it should form part of a new instrument that provides aid to young families, combining and streamlining the myriad, at times inconsistent, payments those families receive. Such a reform could ensure there was no increase in public expenditure while still meeting social policy objectives. Instead, as it now stands, the proposed PPL scheme seems starkly at odds with the government's emphasis on spending restraint.

And in education too, capping the Gonski funding would have been far easier to explain had it been an element in a phased transition to a truly transferable schooling voucher, giving all families, and not just the better off, comprehensive access to school choice.

Obviously, even with such a broader vision, securing support for the budget would always have been difficult. Our political system is increasingly torn in two, sharply inconsistent, directions: on the one hand, as politics becomes ever more competitive, the "perpetual campaign" creates powerful pressures for polarisation and for every issue to be viewed as a zero-sum game; on the other hand, Senate realities compel a search for compromise.

Reconciling those conflicting forces was hard enough when it was a question of handing out largesse; it is harder still when what must be distributed are losses. The rise of the PUP, whose interest lies in chaos, makes the task all the more intractable.

It is only by raising the debate above the immediate clash that the case for change can cut through. Good government, Burke said, required the ability to cloak ideas in “the wardrobe of a moral imagination”, which defined and motivated our concern for the future. Until Tony Abbott learns to do so, failure will haunt his efforts; and looking at Europe, we know what that brings.

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