


THE AUSTRALIAN

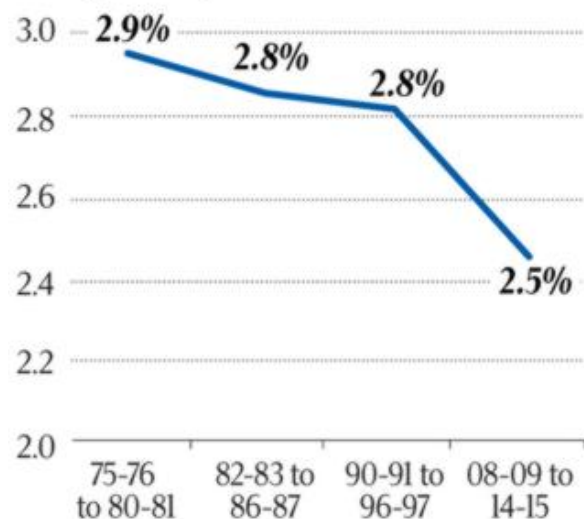
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MARKET		S&P/ASX 200 +0.76% 5176.1000	
S&P/ASX 200	AUD/USD	TOP GAINER BKN	TOP LOSER GXL
+0.76%	+0.53%	+10.76%	-13.51%
5176.1000	\$0.71	\$1.24	\$6.08

National Reform Summit: Agreeing to disagree a place to start

HENRY ERGAS THE AUSTRALIAN AUGUST 27, 2015 12:00AM

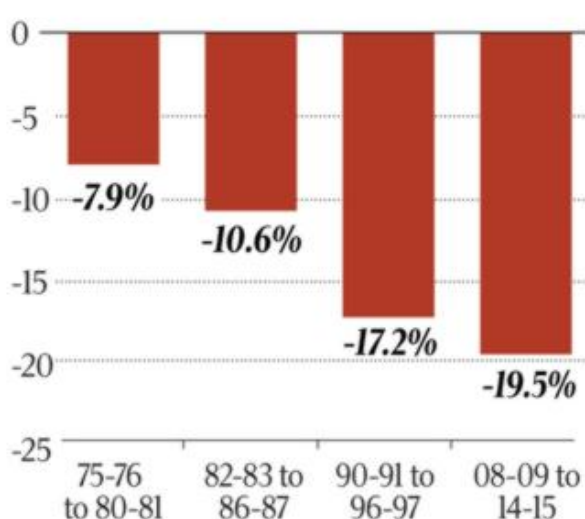
Declining growth rates...

Average GDP growth cumulative rate during deficit period %



...and burgeoning deficits

Cumulative deficit during deficit period, % of GDP



Source: TheAustralian

“Every human benefit and enjoyment,” wrote Edmund Burke, “is founded on compromise.”

But while the National Reform Summit took steps forward, it also highlighted how much remains to be done before we get to the discussion we need to have.

That is not to minimise the difficulties of compromise in an uncompromising time.

Nor is it to ignore real, if modest, signs of progress. For example, unlike his denials last year, Bill Shorten admitted that the budget deficit is a real problem; and he also said that he was willing to consult on workplace reform.

But while harking back to the 1980s he didn't acknowledge the constructive role the opposition played in the glory days, and he gave no reason to believe that Labor, instead of making obstruction its weapon of choice, will align its deeds with Shorten's words.

Yet even taking the steps forward into account, an appreciation of the scale of the challenge was hardly apparent. The mining boom left us an immense legacy, trebling the capital stock in mining and increasing it by 75 per cent in the market sector as a whole. Rather than putting that to good use, however, we risk shredding its value in a regulatory logjam.

As for our fiscal predicament, it is no less worrying, with the cumulative deficit since 2008-09 already equivalent to 20 per cent of GDP, and the return to fiscal balance made all the more difficult by the economy's slowing growth rates.

That the World Competitiveness Report, which placed Australia fifth in its rankings in 2001, now ranks us 22nd is unsurprising. But, when it came to specific changes, what was claimed to be common ground soon proved fractured terrain. As a result, the summit statement took lack of ambition to new heights.

Nowhere is that clearer than with respect to fiscal consolidation, where it merely sets the goal of "restoring public budgets to structural balance progressively over a 10-year period".

Not only is that even less ambitious than the previous Labor government, which claimed to be seeking a surplus over the cycle, but it also defers the return to budget balance to 2025, by which time we will have had nearly two continuous decades of structural deficits. It is easy to understand why tackling the fiscal task is so daunting: with at least 40 per cent of households paying no net tax, and so making no contribution to funding the services they consume, the pressures to keep increasing public spending — and the political costs of trying to reduce it — are dramatic.

However, long experience shows there either is or is not a willingness to restore fiscal sustainability. Arthur Fadden, Paul Keating and Peter Costello didn't need decades to return to surplus; they took two to three years. In contrast, when long timelines are set for fiscal consolidation the outcome is invariably to consign budget repair to the never-never.

That so much emphasis was placed on fairness only makes reform less likely. If you (wrongly) believed the summit statement, it was "our income support and services systems", rather than sustained economic growth, that "protected us from experiencing severe economic and social inequality".

Little wonder then that the statement's section on tax reform requires that "any reform package must ensure the majority of households are no worse off": code for demanding that, yet again, any changes "soak the rich". Moreover, with the fairness talk flowing freely, every area of public policy, from housing to superannuation, was seen as an instrument for redistributing income, with no regard for how well (or at what cost) it could serve that purpose.

ACTU president Ged Kearney summed that spirit up perfectly: deficits, she said, "should not be an obsession", no matter how long they last; as for taxes, they should be seen "not as a burden but as an opportunity"; and Europe's problems were not due to high spending but to austerity.

But it would be wrong to consider the summit a waste of time. There was, commendably, a tone of civility which distinguished it from the shrill and strident tone of Australian politics. Yes, there were many points of dispute: however, clarifying differences of beliefs and values is an advance in itself. Sure, the agreements were anything but sharp-edged; but it is the aim of compromise to give something to all parties, which means its results will almost always be internally contradictory.

Ultimately, society gains when we economise on disagreement. Differences cannot be wished away; yet it is only by facing up to them that shared hopes can overcome entrenched fears.

A step forward, however stumbling and modest, on Burke's path to "human benefit and enjoyment", is far better than none.