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The Owl of Minerva

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Epochs, the German philosopher Georg Hegel said, only become meaningful as they come to an end. It is only "a shape of life grown old" that we can grasp and thus "paint its grey in grey", for it is when chapters of history come to their close that concepts and analysis can merge with practice and experience. "The owl of Minerva" (the Roman goddess of wisdom) therefore "spreads its wings only with the falling of the dusk", and as it takes flight, condemns the past to a world that "cannot be rejuvenated but only understood".

Hegel's evocative images have a ring of truth, which seems all the stronger as the Howard years end and the Rudd years begin. Yet democracy is competition and change within a framework of institutional continuity. The new builds on the old, however much it alters its form. Understanding what has been, and why it has gone, is crucial to understanding the constraints and opportunities within which new approaches will develop.

Doubtless, many forests will be consumed by books, papers and articles analysing why the Howard years came to an end. Many of those will stress the obvious factors, including concerns about WorkChoices, perceptions that life was becoming a bit tougher, and the desire for change after so many years of Coalition rule.

That each of those played a part is difficult to deny. Fear is a stronger, more primal, emotion than hope, and the very fact of achieving an unexpected degree of prosperity may accentuate the apprehension of possible loss. Whatever may or may not have been permitted under WorkChoices, it was readily painted in terms more reminiscent of "Nightmare on Elm Street" than of reasoned debate.

Moreover, as WorkChoices became ever more complex, uncertainty as to what it actually allowed only became stronger, feeding the mood of anxiety. Had it been introduced in a period of strikes and trade union thuggery, it would have been seen as aimed at troublemakers and widely accepted. But in a sea of industrial tranquillity, it was all too easy for ordinary people to worry that it was aimed at them – or might well be in future.

A perception, in important sections of the community, that life was getting tougher would have made the disquiet all the greater. Just as fear is stronger than hope, so does loss weigh heavier than gain. That "loss aversion" (as economic psychologists call it) should have come into play may seem odd, as real incomes have been growing, and significantly so. But especially in the most recent period, that growth may have been more marked in the statistics than in everyday perceptions.

There is, in effect, a significant difference between those items for which prices are rising and those for which they are falling. Prices for imported goods have been falling, and most spectacularly so for electronics; but prices for food, for transport and for services such as childcare have been rising, as have nominal interest rates. Now, most people buy computers and plasma television screens very infrequently, so that even very large price reductions there will have little weight in our sense of disposable income. But we buy food and petrol every day or close to it, and the sheer regularity and size of mortgage interest and childcare payments make them difficult to forget or overlook. The fact that spending on plasma screens and computers seems discretionary, while food, transport, shelter and everyday services are not, makes it even more starkly the case that increases in prices for latter make us feel worse off in a way that even large reductions in prices for the former does little to offset.

These factors, along with the sheer desire for change, will all be seen as contributing to the end of the Howard era. But it is also likely that a "Tocqueville effect" was at work.

Writing some fifty years after the French revolution, with the revolution still vivid in people's minds, Alexis de Tocqueville noted that it was unrivalled prosperity, not misery, from which the revolution had sprung. With rising wellbeing, aspirations had grown even more rapidly than achievements. At the same time, the fact that some problems had been dealt with but others not, made those that remained or had newly developed all the more galling. And economic progress, not matched by improvements in social status and the sense of power, created an incongruence that was especially deeply frustrating to the emerging middle classes or "third estate". At first, the tensions were only expressed in political literature, as writers "played for a time the role which in free countries normally falls to the professional politician". But "when the time came for action", the climate of ideas and of opinion had been shaped, and "those literary propensities were imported into the political arena".

There was, in other words, a revolution of rising expectations, born from a highly flammable mix of greater wellbeing, the fear of falling back to where one had been, a desire to have a greater say and the scribbings of agitators, doomsayers and self-styled prophets.

Much the same could surely be said of Howard's Australia. Being "relaxed and comfortable" is not a stable state for living beings; it invites the hope for better. Moreover, rising incomes lead to changes in consumption patterns that themselves alter expectations, as what were once luxuries become necessities and previously discretionary outlays become commitments from which it is difficult to escape.

In creating those rising expectations, the Howard era saw the end of the long cycle that began with the oil price hikes of the 1970s. The recessions which followed proved a "school of hard shocks" which ground into reverse the ever-rising aspirations which had characterised the 1960s and the Whitlam years. As electorates became more sceptical of what could be achieved, there was a retreat, however cautious and incomplete, from over-extended government.

But there was no reason to believe that retreat would persist forever, especially once the constraints which had so tightly limited public spending in the 1980s and 1990s gave way to budget surpluses and lavish tax cuts. Rather, prosperity brings its own insistent demands, including a desire for increased provision of public goods and a willingness to devote new-found wealth to "feel good" outlays such as public spending on (and protection of) the environment.

It would be easy to see in this a return to form, if not to venerated tradition. In his great work *Australia*, published over seventy years ago, W. K. Hancock defined the ideology of Australian democracy as being "the sentiment of justice, the claim of right, the conception of equality and the appeal to Government as the instrument of self-realisation". All of these, he said, combined in a tendency among Australians to "look upon the State as a vast public utility, whose duty it is to provide the greatest happiness to the greatest number." Though "generally matter-of-fact people who distrust fine phrases and understand hard realities", Australians are, he concluded, "in politics, incurable romantics" who, out of intellectual laziness and profligacy born of the country's wealth, "constantly confuse ends and means... [and are] reluctant to refuse favours, to count the cost, to discipline the policies which they have launched".

But deep as those currents run, each time they resurface it is in a different setting and it is to that setting that they must adapt.

Part of this adaptation, already obvious in the Rudd camp, is essentially rhetorical. A curious cocktail has emerged, in which the "fair go" and the vesting of sacred status to penalty rates and weekend loadings are mixed with appeals to efficiency and calls to pursue the goal of "reform". The conventional language of Australian paternalism glides into that of public sector managerialism, in a combination designed to appeal to tinker and thinker alike.

There is, however, a more difficult adaptation that lies ahead, and contains the seeds of much conflict and perhaps ultimate failure. That is the adaptation to the deep changes that have come out of the Howard reforms.

The term "Howard reforms" will doubtless raise hackles, as pundits and assorted critics of the Coalition paint the Howard years as a period of missed opportunity. The attempt is to cast Labor as the party not only of social justice, but also of economic reform, as compared to a Coalition whose main achievement was to be in power while the sun was shining.

That portrayal is itself a return to long-standing form. The late Allan Martin, who was Foundation Professor of History at La Trobe University (and the author of fine biographies of Henry Parkes and Robert Menzies), castigated what he called "the Whig view of Australian history", which saw Labor, and the Labour movement, as the "bearers or agents of the line of progress" while other forces were mere "obstacles whose resistance or blindness has to be overcome". That was a view to which Hancock himself had given some credence, by portraying Labor as the party of "initiative", compared to the non- or anti-Labor parties of "resistance" that could not but flounder in an environment in which "strenuous, old-fashioned individualism mopes and pines like a pelican in the wilderness". But those portraits were mere caricatures, for Australia's political history, as Martin put it, has always rested on "a firm bourgeois reality" that is shaped by the "uneasy and hence varying balance between the inbuilt democratic and conservative propensities [of Australia's] diverse middle class".

The portrayal is no less a caricature when applied to the Howard governments. The introduction of the GST, the successive waves of labour market reform, the "mutual obligation" approach to welfare, the creation of the Inter-Generational Fund, the privatisation of Telstra and the intervention in indigenous health are all items in a list that could readily be extended.

But significant as those headline-grabbing changes are, they should not obscure the deeper shift in the balance between private and public provision that occurred in the Howard years. That shifting balance has consequences which have not yet been fully felt.

Nowhere is the shift in balance clearer than in education and in health care – two areas where the incoming Government has made expansive promises.

In education, there has been a marked, though in percentage terms not very large, move in student numbers from Government schools to non-Government schools since 1996. That shift has been reflected in changes in the composition of Commonwealth funding for schools, with the share for Government schools dropping from 42 per cent in 1995-96 to an estimated 32 per cent in 2003-04. At the same time, new criteria have been brought in for allocating that funding as between non-Government schools, with the new allocation criteria placing greater stress on the income levels of the communities those schools serve.

The growth in Commonwealth funding of non-Government schools has been a cause of continuing and strident criticism, particularly by the public education unions. Non-Government schools, it is said, "skim the cream", taking the students who are most affluent and easiest to educate, reducing diversity in the public schools and leaving them to handle an ever-tougher pool of cases.

These criticisms are misleading for at least four reasons.

First, they ignore the fact that Government schools continue to receive far greater public funding per student than do their non-Government counterparts. Specifically, total government spending on Government schools per Full Time Equivalent (FTE) student (that is, taking account of spending by Commonwealth and State Governments) still substantially exceeds total government spending on non-Government schools per FTE student. Thus, in the 2005 financial year, real Commonwealth, State and Territory Government recurrent expenditure per FTE student in all Government schools amounted to \$10,715 compared to \$6,054 for non-Government schools, with the funding gap being even larger for non-recurrent costs.

Second, they overstate, probably greatly, the extent to which Government schools in fact mix (or have ever mixed) students from differing socio-economic groups. In effect, residential zoning means that Government schools tend to have relatively homogenous catchment areas and populations in terms of key socio-demographic characteristics.

Third, they ignore the extent to which non-Government schools serve children from less affluent families.

Thus, a significant factor in the recent growth in non-Government schools has been the emergence of new, lower-fee independent schools in areas which historically had no non-Government schools (other than Catholic ones) and which have income levels that are relatively low. At the same time, the expansion of Protestant, Muslim and other faith-based schools has provided the option of school choice to a much larger group of Australians than ever before. These schools rarely fit the image of the traditional, elite-oriented, private school, including in terms of the socio-demographic communities they serve. Providing public funding to these schools is far more likely to improve the distribution of educational opportunity than to worsen it.

Last but not least, the claim that growth in the non-Government sector undermines the public school system ignores the positive impact competition from non-Government schools has on the quality and effectiveness of Government schools. There is considerable international evidence to show that subsidies that follow students are good not only for non-Government schools but also for public schools, who find that they must raise standards to prevent shortfalls in enrolment. Unfortunately, State and Territory governments do not release the data needed to replicate here the studies that have been undertaken overseas, but there is no reason to think that the Australian pattern would differ from that elsewhere.

A similar shift in the public/private mix has occurred in health, though against a historical pattern that is far more complex. Thus, sharp shifts from public to private provision and back have made Australian health politics unique among developed countries, creating regulatory and commercial uncertainty with lasting impacts on the operations and administrative capacities of the private health sector, including the Private Health Insurance (PHI) funds.

From 1953 to 1974, Australia relied on a dual system of publicly subsidised voluntary hospital and medical insurance schemes. Medibank (introduced in 1975) was a tax-funded universal public health insurance scheme. With the introduction of Medibank, PHI was limited to offering cover for hospital services, but barred from covering out-of-hospital medical services. As the universal coverage of Medibank was reduced between 1976 and 1981, the role of a publicly subsidised PHI sector was gradually restored.

That trend was reversed, however, by the Hawke Government with the introduction of Medicare in 1984. The role of PHI was again severely restricted, with increased regulatory barriers limiting the range of services that could be provided by health funds. A number of government subsidies were abolished, and bed-day subsidies of private hospitals were ended. Membership of PHI schemes fell substantially – going from close to 80 per cent of the population in the early 1970s to barely above 30 per cent in 1998.

Policies then changed again in the late 1990s, as the incoming Coalition Government was faced with levels of PHI coverage so low as to risk the complete disappearance of private health insurance. In response, the Coalition Government adopted a variety of financial incentives to encourage consumers to purchase PHI.

Those subsidy measures, along with other policy initiatives, led to a marked increase in the proportion of Australians holding hospital PHI, with that proportion rising over the period of the current Government from 33.5 per cent to 43.5 per cent. At the same time, increasing PHI coverage permitted the growth of a substantial private hospital sector, which has expanded choice and provided useful benchmarks for assessing performance in the public hospital sector.

As that process has played itself out, an increasing share of Commonwealth health care funding has been devoted to private sector alternatives. In the 2005-06 financial year, the Commonwealth provided over 90 per cent of the funding to private hospitals. This area of expenditure has grown eight-fold since 1995-96, from \$381 million to \$2,639 million, with government expenditure on private hospitals rising from less than 3 per cent of the total hospital funding budget to just under 11 per cent.

When account is taken of that shift, the Commonwealth share of direct hospital funding has remained remarkably stable over the period – in 1995-96, the Commonwealth accounted for 50.33 per cent of total (Commonwealth plus State and Territory) expenditure on hospitals; for 2005-06, the Commonwealth's share of total hospital funding was 49.98 per cent. But what has changed is the extent of the Commonwealth funding that goes to the private sector.

As in education, that rebalancing of funding has been the object of strident criticisms. And as in education, those criticisms are largely misconceived.

A greater role for private providers does not and cannot solve all the problems of Australia's health system, but it could allow significant efficiency improvements going forward. Competing providers of managed care services could help integrate the various elements of the health services supply structure and bring greater disciplines in terms of cost and service quality. Additionally, a larger private sector, both for insurance and for service delivery, can encourage innovation and experimentation, without which issues such as chronic disease will prove ever more difficult to manage. Finally, consumers are now becoming used to having a choice, and would find a move back to monopoly difficult to accept.

In short, both in education and health, the Howard years saw a transformation that offered consumers greater choice and ultimately, greater control. As that occurred, community expectations have been reshaped in ways that would be difficult, if not impossible, to reverse. Indeed, it is the very desire to be able to afford school fees, private health insurance and childcare that made many voters – and especially young women juggling a family with part-time work – anxious about WorkChoices, and drove them to abandon a government which they respected and whose values they shared.

That much has been implicitly recognised by Labor, notably through its well-publicised commitments to maintaining in place the arrangements for funding non-Government schools and subsidising private health insurance. Given those commitments, voters, whatever they may have rejected of the Howard years, were neither asked to reject, nor did they reject, the move to a greater emphasis on competition and choice in key public services.

But Labor's commitments, however well-intentioned they may be, cannot be the end of the story. Labor's promises have been expansive; sooner or later, realities will bite, not least in the form of budget constraints. Labor will then face its own 'fork in the road'.

It could build on what is worthwhile in the policies of its predecessors. Pushing ahead would allow further efficiencies to be gained, including by increasing the competitive pressure on State and Territory

government service providers. Or it could focus on bailing out the government service providers, taking on responsibilities as difficult to manage as they will prove costly to sustain.

Labor will grapple with those choices, just as all those who triumph in the battles of politics and of power struggle with the balance between continuity and change. It is difficult to win those battles without demonising opponents and denigrating their work; all too easily, this gets in the way of preserving and enhancing the best of what they have done.

"There is", the Roman poet Ovid wrote, "no less talent in keeping what we have got, than in first acquiring it. Chance has something to do with the one, but the other will always be the effect of skill". That skill cannot be exercised without grasping the past and the possibilities it opens for the future, not in the exasperated rhetoric of the political battlefield but in the clear light of analysis.

Seen in that light, the Howard years, whatever their defects, achieved a change in the policy landscape that will be difficult to pave over without substantial cost. They enabled a shift in the public/private balance that is still incomplete but no less significant for it. That is a legacy Labor can adapt or needlessly lay to waste. If it is to adapt it, it must dispassionately understand that legacy's strengths, and not focus on its failings alone.

Tocqueville thought the French Revolution gutted, out of ignorance combined with a thirst for vengeance, what there was that was sound in the foundations the "Ancien Régime" had built. Victors, he noted, often do that, but at their peril; for one day, Minerva's owl will also fly for them. And when it does, they too are judged, and no less harshly than the predecessors they so despised.