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Domestic politics: beyond 2010

By Chris Lewis

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The Rudd Labor Government's level of rhetoric should not be entirely surprising. While Kevin Rudd told everyone he was both a fiscal conservative and social democrat in 2007, greater economic competition and a general commitment to freer trade by Western governments in recent decades has tempered the ability of Australian governments to address all old and new policy needs given the reality that Australia, too, has had to enhance its international economic competitiveness.

The end result is that Rudd, perhaps more so than any other Australian prime minister since 1983, has talked the talk but delivered much less. Readers would be aware of many broken promises; although the government's decision to build just 38 of 270 promised childcare centres is perhaps the most severe backdown from a centre-left point of view.

While Rudd indicated that Australia should not simply be a quarry for Asia, the importance of mineral exports to that region remains evident. In 2009, of Australia's total industry exports of \$249.5 billion, China accounted for \$42.4 billion, Japan \$38.2 billion, the Republic of Korea \$15.6 billion, India \$14.5 billion, and the US \$9.6 billion. Mining exports accounted for 37.6 per cent of total exports in 2009 (39.3 per cent in 2008). Further, while Australia's manufacturing industry had already declined from 30 to 12 per cent of GDP from the 1960s to 2007, another 80,000 manufacturing jobs were lost in 2009, notwithstanding the impact of the global financial crisis.

The Rudd government also adopted stringent rules for social security recipients in line with the developments of recent decades. From July 2010, long-term welfare-dependent people (not just Aboriginal communities) will have half their payment quarantined to be spent on food and household essentials.

Rudd also relies on debt. Notwithstanding the increase in public debt in response to the global financial crisis, even ordinary people were encouraged to be part of the madness with his government from October 2008 trebling the first home owners' grant to \$21,000 for newly constructed homes and doubling it to \$14,000 for established properties, although scaled back by the end of 2009.

It did not seem to matter that on July 27, 2007 the Labor opposition hosted a "housing affordability summit" with about 150 housing experts from all over the country, and agreed that increasing the first home owners grant would simply result in higher house prices. As Rudd told a community cabinet meeting at Elizabeth, South Australia (July 28, 2009), such assistance was essential to prevent retail sales from collapsing and to achieve positive economic growth. Recent first home buyers were left to confront higher interest rates in 2010, and Australia's housing debt to disposable income ratio hit a record 138 per cent by the end of 2009 after being 135 per cent when Rudd was elected.

But are things about to get tougher, notwithstanding my hope that Rudd gets the flick, hopefully from his own party? Probably.

While I personally doubt whether Western nations are going to sit back and accept their demise in the longer term while communist China keeps on rising, they will come under greater pressure to address high debt levels (public and/or private), a reality that is likely to dampen world GDP growth for some time yet.

If Western consumption declines, this is likely to temper Chinese demand for Australian minerals. Already some economists suggest there is a Chinese real estate bubble, given the soaring prices in China's coastal cities for luxury apartments and office space, which is outstripping demand; while not enough housing for the masses is being built. Although others note that the Chinese government is telling banks not to lend in cities already involved in excess development. Slower Chinese economic growth will have a greater impact upon those countries exporting their commodities (like Australia) more so than the developed economies of North America and Europe.

Hence, Australian governments may have to do much more than simply rely on mineral exports, or domestic consumption and a housing boom aided by more and more debt.

In other words, while the recent mining boom has helped Australia maintain its high standard of living, and to sustain the

ability of major political parties to win popular support with public social spending increasing from 13.6 to 17.1 per cent of GDP between 1990 and 2005 (17.8 per cent in 2000 and 2003), such levels will prove difficult to sustain.

Growing pressure to meet a variety of social considerations will increase at a time when it is known that extra resources are needed to address the needs of an ageing population and for disability services, despite health spending in Australia rising from 3.9 to 6 per cent of GDP between 1980 and 2007. Others argue for more resources for education given that half of the working age population (4.7 million people) have poor literacy and numeracy skills, while a similar proportion (4.3 million employees) had no post-school qualification.

The government 2020 skills report, titled *Australian Workforce Futures* (PDF 1.13MB), wants higher and vocational education places increased by 3 per cent a year for the next 15 years and an immediate 50 per cent increase in funding for adult literacy courses, representing an additional cost of \$10 billion in today's dollars (Paul Cleary, "Not taught, not trained and no plan", *The Australian*, April 3, 2010).

And given the likelihood that all Western nations will have to play a greater security role to help an over-stretched US dealing with old and new issues, domestic policy needs will face even greater pressure given limited resources.

It is unlikely that Western nations will again adopt the levels of industry protection and the tax rates that existed prior to the 1980s, although one cannot rule out such a possibility in this competitive world. There are just too many nations now dependent on the possibilities created by freer trade; and Western nations at least enjoy the benefit of having their own pollution levels tempered by the production of many cheaper manufactured goods shifting to developing nations.

While I acknowledge that liberal democracy maybe as good as it gets, at least if you support the concept of liberalism that fair rules must exist for all nations, I am hopeful that Australia will maintain a policy mix that balances compassion and competitiveness, although environmental solutions may remain slow for some time yet as most societies remain obsessed with their economic well-being first and foremost.

A progressive policy mix is more likely in any society where the ideals and excesses of both centre-left and centre-right political parties (including the minor parties) are promoted and countered to help deliver a pragmatic policy, although hopefully not as unequal in terms of outcomes as evident in the US (albeit that nation bears the highest economic and military burden). While it is estimated that US casual workers may increase from 31 per cent of the workforce in 2005 to 40 per cent over the next ten years - so that employers can avoid traditional benefits such as health coverage, paid vacations and retirement plans - just how silly is one report that contract workers in one workplace were not eligible for H1N1 flu shots in a workplace containing both full-time and contract labor.

But I am not holding my breath. You just never know what will happen in regards to battles over scarcer resources.

There will have to be reforms to social welfare, especially if global economic growth is hindered, a possibility hardly helped by tougher credit conditions for borrowing after the excesses of recent decades. Forget the rubbish about the centre-left supposedly being committed to social justice and the centre-right committed to market principles. What will matter is the quality of ideas as to how available resources can be allocated in a fair way, and what results will be achieved. It may well be that measures will be adopted to force more Australians to work given that the *Australian Workforce Futures* report calls for Australia to increase its level of workforce participation by four percentage points to 69 per cent by 2025 and that Australia has the 10th lowest rate in the developed world.

There may also be greater anti-immigration sentiment in coming years. After Australia's economic growth slowed during 2009 and 2010, an Essential Research poll taken during April 2010 found a 55-30 per cent support-opposition ratio when participants were asked whether the government should "provide incentives for new migrants to settle in specific regions of Australia which need and can cope with higher populations". An April 2010 Australian Survey of Social Attitudes also found that about 70 per cent of Australians did not think that the country needed more people with the main concern being that "we should train our own skilled people, rather than take them from other countries". And an April 2010 Morgan poll (Finding 4482) found that 81 per cent did not want Australia's population above 35 million by 2040 (60 per cent actually wanted less than 30 million).

Public opinion and media reporting will often have an impact on government policy. When talkback radio and television current affairs showed mounting anecdotal evidence that overseas investors are buying a greater number of houses and apartments in Sydney and Melbourne, the government indicated in April 2010 that it would reinstate many of the old restrictions (softened in March 2009) on foreign property investment and impose tougher penalties on those breaking the rules.

Temporary residents such as students would now have to notify the Foreign Investment Review Board if purchasing a property and have to sell the property when leaving the country.

Although the government did not reinstate a \$300,000 limit on housing purchases, it introduced a civil penalty regime to help stop investors flouting the new rules; a community hotline to respond to concerns; and a data-matching system to track potential breaches (Jacob Saulwick and Ben Cubby, "Foreigners face tighter property ownership rules", *Sydney Morning Herald*, 24 April 2010).

It was reported that Melbourne's suburbs near private schools were particularly targeted by foreigners, with one real estate agent noting that Chinese buyers accounted for one-third of sales in Kew and Balwyn with others believing that Chinese purchases were increasing prices by as much as 15 per cent in sought-after suburbs (Shane Wright and Andrew Probyn, "Rudd backflip on house sales to foreign students", *The West Australian*, April 24, 2010).

Ultimately three decades of reform has demonstrated significant policy limitations for Western nations meaning that Australia will be tested in terms of its generosity to both its own citizens and foreigners. Rudd has demonstrated the folly of promising the world to almost everyone but delivering a lot less when compared to other prime ministers: Australia is wishful if it thinks it can be saved by exporting minerals to communist China or continue to rely on debt. Hard decisions to reform government spending in an efficient and effective way will be needed as the days of governments and people relying on debt come to an end, or at least slow.

I am optimistic that Australia's liberal democracy will remain a relatively progressive and pragmatic nation by world standards, but we will see.

Chris Lewis has an interest in all economic, social and environmental issues, but believes that the struggle for the 'right' policy mix remains an illusive goal in such a complex and competitive world.

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