

# Running on empty

**John Quiggin**

*After nine years spent in opposition, it's still hard to know what Federal Labor intends by way of an economic policy platform. Kim Beazley still seems to believe that the prime purpose of opposition is to oppose. John Quiggin disagrees. Without a coherent and well-understood economic direction, he argues, Labor's sniping will continue to look like unfocussed opportunism.*

With the Howard Government now in unchallenged control of the Commonwealth Parliament, the role of the Labor Party must change substantially. Until now, Labor has been able to influence legislation directly through the Senate, a task that required negotiation with Democrats, Greens and independents. Barring defections from the Government, the next three years will see the resumption of the traditional role of opposition, able to criticise government policy and propose alternatives, but with no effective involvement in the policy process.

The last time Labor was in this position was under the Fraser Government of 1977–80. At that time, the Labor Party took the opportunity to undertake one of the most successful programs of renewal in the history of Australian politics. A committee of inquiry led by John Button was established in 1978, and undertook a comprehensive review of the Party's policies and organisational structure.

The results were impressive. The National Conference, which had been, at best, a non-event, and at worst a source of embarrassment (the 'thirty-six faceless men' in 1963 and the Terrigal fiasco of 1975), was expanded and became, for a short period, a serious venue for policy debate, and a source of extensive media coverage of Labor and its policies. Innovative policies were developed, most importantly, the Prices and Incomes Accord. The party's preselection policies were revamped, with the result that the incoming Cabinet in 1983 was arguably the strongest of any Australian government, certainly the strongest for a newly-elected government.

By contrast, Labor's years in opposition since 1996 have been wasted. Policy development has been almost non-existent. Attempts to reform the party's structures, such as those made by Simon Crean after 2001, based on the Hawke–Wran

Review, have resulted in bitter infighting and few concrete achievements. The Party's membership has withered and the selection of candidates has been driven by branch-stacking and factional deals.

Now that direct involvement in the policy process is a thing of the past, Labor has little alternative but to spend time developing alternative policies. The purpose of this paper is to examine options in relation to economic policy.

## Does Labor need an economic policy?

The first question that needs to be asked is whether Labor needs an economic policy, as opposed to a critique of the current Government's economic performance. The opposite viewpoint was the basis of the 'small target' strategy pursued from 1996 to 2001. The key arguments were put forward by Kim Beazley in a speech to the National Press Club on 12 April 2005 (Beazley 2005):

'An opposition should be judged, in the first instance, not on a clever alternative policy, but on the effectiveness in which it holds the government accountable for its policies.'

Mr Beazley said an opposition was only regarded as an alternative government in the 'six weeks prior to an election'.

In some respects, this position is correct. One of the central tasks of government is macroeconomic management, encompassing such issues as the use (or non-use) of countercyclical fiscal policy, stimulus to specific sectors of the economy and the ultimate responsibility for monetary policy (even when, as for the last decade or so, an independent central bank has the immediate responsibility for setting interest rates).

In the absence of strong ideological disagreements over basic issues like central bank independence, the primary concerns over macroeconomic policy are those related to management, and the opposition's task is, as Beazley suggests, to hold the Government accountable for its management decisions or non-decisions.

Clearly the opposition's task in this respect is more difficult in the context of an exceptionally long economic expansion than if the economy is performing poorly. While it is possible to argue that the Howard Government has been lucky, and has not made particularly good use of its luck, such arguments would be much more convincing in the context of an economic downturn.

Such a downturn is certainly a possibility in view of the rapid growth in Australia's current account deficit in recent years, a development that has historically been followed, in most cases, by a slowdown or recession. But on this score, the Opposition can do nothing more than watch and wait. (While opposition leaders would scarcely be human if they did not entertain some desire to see their opponents fail, it's obviously both inappropriate and politically unwise to express such a desire or to let it inform commentary on developments in the economy.)

On other issues, however, the lack of an alternative policy creates serious difficulties. One problem is that, in the absence of any coherent alternative, the natural tendency of opposition is to snipe at the government from every possible angle, without regard to consistency. So, the government may be attacked on one day for being 'high-taxing', the next day for heartless cuts in vital public expenditure programs, and the day after that for allowing the budget deficit to blow out.

### Capital gains, wealth, aspiration and income redistribution

In formulating an approach to economic policy, Labor faces a fundamental problem. Australians have always had a penchant for speculation in real estate, and this has been reflected in periodic housing booms and busts. There is, however, no historical parallel for the extent to which the Australian economy is currently dominated by the pursuit of capital gains. Depending on how capital gains are interpreted, the steady growth in output and consumption over the past fourteen years may be seen either as an unsustainable bubble or as a sign of even better things to come.

The economic statistics on which analysis of the economy is based are, in general, computed as part of a system of national accounting based on production, and on a concept of income as the share of production flowing to owners of factors of production (labour, land and capital). In this framework, changes in the stock of capital assets arise from investment, net of depreciation. It follows that capital gains are transitory asset price movements, of little economic significance. Hence, rapid

growth driven by consumption out of capital gains appears as an unsustainable bubble.

The alternative assumption begins with balance sheets in which assets and liabilities are valued at current market prices. Income, net of consumption, can be derived as the change in net worth over a given period. In this framework, capital gains represent the primary form of income. Production is relevant only to the extent that it increases capital values, after allowing for capital gains.

In the standard, production-based system of national accounts, the main statistics providing support for the view of the economy as a bubble are those relating to household savings and the balance of payments. According to the Australian Bureau of Statistics (ABS), Australia has had negative household savings for several years now. The primary mechanism of negative saving has been the withdrawal of equity from housing. Faced with an increase in the market value of their homes, Australian households have increased their borrowing through home equity loans or have traded up to more attractive homes by taking on additional debt. Since the ABS does not treat capital gains as income, these transactions result in negative saving in the national accounts.

A focus on balance sheets yields a very different perspective, arguably closer to the viewpoint of the typical household. From the household's viewpoint, a home equity loan drawing on capital gains is merely a partial offset against an increase in wealth. As long as the household's net wealth is increasing, it appears from this perspective that saving is positive. The way to make this consistent with the income account is to treat capital gains as a component of income. If capital gains are treated as part of income, the decline in aggregate household savings appears much less significant. Despite negative savings in the traditional sense, households have experienced rising wealth thanks to capital gains.

Politically speaking, it is hard to see how Labor can win an economic policy debate if the capital-gains view of the economy is accepted. Not only has the Liberal Party traditionally been more friendly to house owners (including speculative investors), but the current Government has presided over a boom in housing prices that is almost without parallel in our history.

Nevertheless, there has been considerable pressure for Labor to compete on precisely this ground, commonly discussed in terms of 'aspirational' voters. In the discussion of this issue, the focus is almost invariably on aspirations for bigger and better houses, rather than for better jobs, let alone for an improvement in the general quality of life.

The debate over aspirational voters is closely tied to the question of income redistribution. One consequence of an economy based on housing speculation is that even households with high incomes are heavily indebted. It's not surprising that, as Hamilton (2002) observes, large proportions of upper income earners regard themselves as battlers, struggling to get by.

## Tax and public spending

Labor is on stronger ground when it comes to debates about taxation and public spending. The idea that the share of national income allocated to public expenditure should be constrained or reduced has been a standard assumption in Australian politics for decades, dating back at least as far as the Hawke Government's 'Trilogy' commitments, made in 1984, to reduce taxes, expenditure and the deficit relative to national income.

An analysis based on structural change suggests the opposite conclusion, namely that the public share of national income and expenditure should be increased. The sectors of the economy that are, or should be, growing in relative terms as we move from an economy based on physical goods to one based on services and information, include health, education and various forms of risk management, including retirement income and social insurance. These are the areas that dominate the expenditure side of the Government's budget.

Demographic change will play some role in increasing health expenditure. In particular, people with dementia are surviving longer than in the past, and caring for them is expensive. But the major source of growth in health expenditure is the development of new treatments. We could 'control' health expenditure by forgoing new treatments, but why would we want to?

Similarly sooner or later, we will need to face the fact that, in a modern economy, we need to aim for universal completion of secondary school, and progression to post-secondary education, whether this is academic, technical or vocational. This will not come cheap, and it is unlikely that much more of the cost can be shifted on to students.

While political actors and commentators have been reluctant to recognise this, public opinion has moved ahead of them. Opinion polls in the 1970s and 1980s generally found that most respondents regarded tax cuts as a higher priority than improvements in public services. The balance of opinion on these issues has been reversed in recent years.

A crucial requirement for policy in these areas is effective co-operation between federal and state governments. The Howard Government has adopted a somewhat incoherent form of centralism, seeking to micro-manage state policies on a range of issues, while shying away from accepting responsibility for basic services. The result is that resources of money and attention are diverted from core responsibilities to political point-scoring by federal ministers.

In political terms, Labor has a big potential advantage. It is reasonable to expect that Labor will still hold government in most states at the time of the next election, due in 2007. An agreement for effective co-operation, something the present Government has not delivered and cannot, would go a long way to negate the appearance of impotence usually associated with being in opposition, much as did the proposal for the Prices and Incomes Accord in 1983.

## Industrial relations and unions

The question of industrial relations is critical in determining Labor's political and economic strategy. This is one area where the developments of the past twenty-five years have been unequivocally adverse, at least from a traditional Labor viewpoint. Union membership has declined drastically and the protections of the award system have been stripped away. The adverse impacts of all this have been obscured by the absence of any serious macroeconomic shocks, but will be clearly apparent next time there is a recession.

By the time the Howard Government's proposed industrial relations reforms are in place, very little will be left of the Arbitration system, and, except for a small minority of workers protected by powerful unions, or with highly marketable skills, conditions will be determined either by employer-imposed contracts or by increasingly threadbare award minimums.

Labor has the choice of accommodating the new realities, or seeking an alternative direction. One important effect of the Howard Government's proposals to expand Commonwealth power over industrial relations is that a future Labor federal government will have more power than in the past. And with a clearly anti-worker system in place, few unions will be likely, as they have in the past, to defend the status quo.

Labor has already committed itself to reversing many of the Government's proposed changes, but it is important to avoid a purely reactive policy. It is not clear, for example, that Labor should seek to reverse Howard's moves to a single national system, or the replacement of the quasi-judicial Australian Industrial Relations Commission (AIRC) by the administrative Fair Pay Commission (FPC). With the right appointments and powers, an FPC might be a more effective device for protecting and enhancing pay and conditions than the AIRC.

The crucial requirement for industrial relations policy is the removal of the disabilities that have been piled on unions over the past few decades. These have included the revival of anti-union common law actions derived from the 19th century doctrine of master and servant, the application of trade practices legislation, and the imposition of specifically anti-union regulation including emergency services laws and requirements for secret ballots to start strikes. (Note that no such requirement is ever imposed for the end of a strike).

While some restrictions on strike activity are justified, they should be matched by a restoration of the protected status of legitimate union activity, including rights to organise in workplaces and to negotiate union-only workplace agreements with employers.

## Concluding thoughts

Although the Howard Government may appear unassailable, its electoral support is built, in large measure, on the unstable

foundations of a housing boom, financed by massive overseas borrowing. Sooner or later, the boom will end, and economic conditions will be less favourable. It is unlikely, however, that Labor can regain office simply by waiting for the government's luck to run out, without offering any alternative strategy. This paper has offered some suggestions, but what is needed is a comprehensive review similar to that undertaken in the late 1970s.

*Professor John Quiggin is a Federation Fellow in Economics and Political Science at the University of Queensland. He is prominent both as a research economist and as a commentator on Australian economic policy.*

## References

Beazley 2005, Address to the National Press Club, <http://www.news.com.au/story/0,10117,12841269-421,00.html>

Hamilton, C. (2002), *Overconsumption in Australia: the rise of the middle-class battler*, Australia Institute Discussion Paper 49, Canberra.

# Pursuing the Ubiquity Principle

**Tom Clark**

*Higher education research stands at a kind of half-way house. At present, it is highly directed by Government research priorities. Yet the Government's ambition is to create a much more deregulated system, with self-created winners and losers. Tom Clark suggests a different starting point. All higher education institutions generate research, and all academic staff should be expected to do so, regardless of where they work. It is better policy to foster the full range of the research resources we have now, rather than allow some research to sink in the pursuit of islands of excellence.*

In a previous article for *AUR*, I argued that higher education policy in Australia is at an impasse, which is not exclusive to this country, and which will only be overcome by developing an as yet unrealised consensus on the underpinning goals and values of the system.<sup>1</sup> In this article, I examine research funding as an area in which the beginnings of a genuinely sustainable framework might be fashioned. In doing so, I deliberately sidestep debates about the quantum of research funding and about the public/private mix of funding. They are important questions, of course, but I wish to consider a framework for research funding that could sustain a wide range of answers to those questions.

We benefit from being as clear as possible about the prescriptive teleology of our research system, which tends to mean we should keep it simple. The telos, or original goal, of research within a higher education system is to lead scholarship. Australia's university research funding framework does not adhere to this precept. It conflates the original role of research in universities — to lead scholarly teaching and community service — with macro economic and other public goals for concentrated research activity. These latter goals are often important in themselves, an importance that may have intensified the conflation. Thus, while we have a variety of Commonwealth schemes to support university research, whose total value now approaches