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HD **A failure to do some vital straight-talking**
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A failure to do some vital straight-talking The government is missing its chance to engage the public in the need for fiscal consolidation

THIS week the accumulating defects of the Abbott government were on graphic display — excessive centralisation around the Prime Minister's office, lack of proper consultation, flawed judgments and uncertainty about how to address its tactical dilemmas.

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The government is stranded between two untenable positions. It has failed to carry much of its budget yet it is unsure of the politics that should govern those reforms deadlocked in the Senate. Beyond this, its internal processes look dysfunctional, with all the contemporary meaning of that word.

This week saw the “barnacle debacle” — briefings that the PM wanted to remove “one or two barnacles” by Christmas, including the \$7 GP co-payment, an angry Treasurer unaware of and opposed to this tactic and then construction of an agreed formula to disguise the confusion.

At week's end after talks on Friday the government — only for the time being — is standing by its existing unpopular position of a \$7 GP co-payment to raise \$3.5 billion and will work furiously to try to secure passage of a university reform compromise package.

The differences within the government over Medicare do not seem to be resolved. Joe Hockey, as his public comments all week made clear, is dedicated to the fight for the co-payment. The problem, as Tony Abbott knows, is its roadblock in the Senate. There is pressure for a fallback position, the divisions within the senior ranks of government are papered over, yet they are still real.

The Abbott government looked a mess this week because of its own self-inflicted blunders — confusion over its Medicare position, the absurd pretence it was not cutting ABC funds and not breaking a promise, and the furore over Defence Minister David Johnston's immortal insult to the government's shipbuilder.

A government guilty of repeated blunders has no hope of mobilising its success. This is the current story of the Abbott government. Yet those successes are significant — the G-20 meeting, the sale of Medibank Private, the Australia-China free trade agreement. Its successes, however, are not being treated on merit. Much of the problem arises from unilateralism and flawed strategy within the PM's office, causing intense frustration among senior ministers. This is a highly centralised government. That means indecision from Abbott creates indecision across all ranks. Abbott sent equivocal public messages this week over the Medicare policy and the tension between Abbott and Hockey was obvious despite efforts to disguise it.

Abbott has sent a letter to ministers about improving cabinet operations. It contains the line that cabinet is functioning exceptionally well, yet the conduct of high policy and its presentation undermines this claim. The government has had six months to learn the lessons from the failure of its budget strategy. Yet those lessons have either not been learned or not been properly articulated. The new head of the Prime Minister's Department, Michael Thawley, will face an immense task.

With the summer break near, the tactical dilemma for the government is acute. Does it retreat on thwarted measures, seek implementation by regulation, stand its ground or concede it is beaten by the Senate and give up the fight? The government faces an uphill battle to go into summer with an improved narrative, which is what Abbott needs. Passage of the higher education reforms would do the trick, but that remains an optimistic scenario.

Australia is heading into dangerous waters. It has a government whose budget strategy has faltered and a Labor opposition in complete denial of the structural changes needed to achieve long-run economic success. This week's speech by outgoing Treasury chief Martin Parkinson testifies to the irresponsibility now rampant in the political system.

While the government is guilty because it failed to prepare the nation for its two big and thwarted reforms — the GP co-payment and university fee de-regulation — there is no discussion whatsoever from the opposing multi-party Senate majority about the consequences of its position.

If price signals are not built into Medicare then the ultimate result will be higher taxes or a higher levy to sustain it. If the eminently defensible university reform compromise is not passed the result, as Universities Australia says, is that higher education will face an "inevitable decline in quality, performance, competitiveness and reputation".

The biggest failure of the Abbott government is that facing the most serious destruction of a budget since the 1975 crisis much of the blame is sheeted home to the government, not the perpetrators in the Senate. This is a function of Coalition incompetence and a political culture unable to focus on trade-offs and consequences.

Hockey will soon release the mid-year review of the budget. The picture is known: sub-trend growth, weak wages growth, steeper than expected iron ore price falls making the deficit worse than predicted. This is accentuated by having more than \$25 billion in savings blocked in the Senate. Hockey won't make more spending cuts to compensate for the iron ore price falls. Sensitive to fragile levels of economic confidence, his focus will be jobs and growth.

A cardinal lesson from the week is the Abbott government's failure to engage in straight talk with the Australian public. This weakens the authority of the PM and his entire government. It makes the selling of difficult reforms impossible.

In his swan song as Treasury boss Parkinson, declaring himself an optimist about Australia, laid the cold hard truth on the table. He warned the nation "has a structural budget problem that requires a sustained and measured response". So much for the repeated denials that litter our delusional public debate.

Parkinson said: "We would be dishonest with the public if we pretended that Australia could ensure fiscal sustainability with the pace of expenditure growth implied by the policies of recent years without a significant increase in the national tax burden." He said it would also be "dishonest" to pretend that raising taxes is costless.

It is an essential warning, again, because the current political debate is not merely dishonest. It is a mass fraud on the public. Parkinson's point is that Australians have a choice — they can accept fiscal constraint far tighter than anything in recent years or they can accept higher taxes. This is the real choice before the nation, yet this choice has almost no exposure whatsoever in public debate.

It is the brazenness of the current dishonesty in the political system that is so startling. The real position of the Senate majority, by logic, is higher taxes for the public.

Parkinson offered three points of guidance from "economics and experience". First, he said that from a growth perspective it was better to conduct the fiscal repair job by cutting spending rather than increasing taxation.

Second, he said it was "not feasible" to materially reduce spending without "looking at the largest spending categories" and for the government they are health, welfare and higher education. This is a no-brainer. In this connection Parkinson draws the distinction between reducing current benefits and reducing the future real growth of benefits, a distinction rarely made in the cause of deliberately promoting community hysteria and grievance.

Third, Parkinson says it is important to start the fiscal consolidation now. Unless action is taken the nation faces another 10 years of budget deficits. He warns the "implications for fiscal sustainability" of failing to take action now "seem to have been lost in the public debate, as if this does not matter to Australia's future prosperity". It is a fitting and final warning. The roadblocks in the political system are

jeopardising our future as a nation. We need a more competent and persuasive government and a more responsible attitude from the Senate majority.

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