



IDEAS FOR AUSTRALIAN PROGRESS

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FOREWORD

Dear reader,

You hold in your virtual hands an exclusive pre-release copy of *Pushing Our Luck: ideas for Australian progress*. We hope you enjoy it!

Politicians are busy people. They often don't have time to do their own research or write their own speech notes. That's why they hire policy advisors. Their advisors do their reading for them, find out how to put their aims into practice, summarise the evidence of why new policies are needed and how they will work, and even give them tips on how to argue for their ideas.

It's a useful service, and here at the Centre for Policy Development, we asked ourselves why only politicians should have access to it? Most of us are busy people trying to manage conflicting demands on our time. It's easy to feel overwhelmed by the sheer quantity of information out there.

The following pages are full of food for thought on the future of progressive thinking and policy in Australia beyond September 7. This book is not meant to provide the final word on what policies the federal government should adopt on all these issues, but it does provide a clear guide to some of the major challenges ahead, some big ideas on how to deal with them, and concrete evidence that those ideas could work.

Happy reading!

Miriam Lyons, Centre for Policy Development

P.S. This book will be updated after the election and released in e-book and print form. So if you spot any typos, please feel free to shoot an email to pushingourluck@cpd.org.au

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INTRODUCTION



The 2013 election season feels disturbingly familiar to anyone who was paying attention back in 2010. One Prime Minister replaced with another on the back of bad polling? Check. New Prime Minister waters down a controversial tax and creates a big hole in the budget? Check. Last-minute plan to stash asylum seekers somewhere out of sight and off the front pages? Done. Opposition leader promises to axe the tax, stop the boats, and balance the budget, and then makes those same promises, over and over again? Yep.

This may seem like a strange time to be publishing a book of progressive ideas. Our public debate is not a civilised contest over policy options but a bare-knuckle boxing match between populist politicians, and the political tide seems to be turning against attempts to put long-term social goals ahead of short-term individual ones. But the contributors to *Pushing Our Luck* argue that, despite appearances, we have not yet reached the peak of Australian progress. Building a society that is more fair, sustainable, prosperous and cohesive than the one we live in today is not just a nice idea, but an achievable one.

The title of this book is both an invitation and a warning. An invitation to take the courageous steps necessary to make a good country into a great one, and a warning of the consequences of coasting on the back of past achievements. The fear that Australia's good luck will run out if we push it too far can be so paralysing that we fail to make the most of it. The following chapters show that, in many cases, we're running down our inheritance, neglecting public assets that took decades of cooperation and hard work to build. We're drifting towards two-tier systems in health, education, welfare, and workplace relations. Australians have never been asked if we want to prioritise the wellbeing of the wealthy, healthy and highly skilled and leave everyone else on the margins, but that is where we are headed. The authors of *Pushing Our Luck* show that the political constituency for a different approach is strong, and would have many practical advantages. They also spell out what's required to make our good fortune last well into the future.

Australia is one of the most prosperous countries in the world. We rank near the top of the United Nations' Human Development Index, based on our levels of health, education and income.¹ The Economist Intelligence Unit rates Australian newborns as the second-luckiest babies in the world.² It's time to decide what to make of our status as the rich kid on the block. Do we want to be the world's Gina Rinehart – eyes only for the next quarry, squabbling with the kids over the inheritance, lecturing those less fortunate on why they deserve their fate? If our nation were on its deathbed, with the extended family gathered around, what would we be proud of, what would we regret? Would we be passing on a rich legacy, like Norway, or would we have frittered it all away, like Nauru? Would we wish we'd spent more time and effort on the things that really matter?

We'll all be rooned, said Hanrahan

Meet Sergio Munoz. He has been job-hunting for over nine months: 'If you go to an interview, there are another 1,000 people who want the same position as you... You have to be a God to find work in Spain.' Munoz, who is 25 years old and has a degree in chemical engineering, is one of 6 million³ unemployed people in Spain, where one in two young people and one in four⁴ of the total population can't find work. Italy is in a somewhat better position with unemployment around 12 per cent overall and almost 40 per cent for young people.⁵ In Greece the economy is now 20 per cent smaller than it was in 2007,⁶ and a 200 per cent increase in HIV infections and the first malaria outbreak for decades have been blamed on budget cutbacks.⁷ Unemployment has settled in at just under 8 per cent in the United Kingdom⁸ and has edged down to 7.4 per cent in the United States.⁹ As noted in Chapter 1, the economic impact of unravelling financial markets was greatly worsened by the austerity policies imposed by governments and institutions that had forgotten the lessons of the Great Depression. Only recently have the International Monetary Fund and the German government remembered their Keynes. For all his flaws, Australia is very fortunate that Kevin Rudd was in power with the Global Financial Crisis hit, and took Treasury Secretary Ken Henry's sensible advice to implement a well-designed stimulus package.

It used to be said that when America sneezes Australia catches a cold. As the global financial crisis took hold, America and much of Europe came down with swine flu and Australia got a mild case of the sniffles.¹⁰ Our economy is heading for 22 years of consecutive growth, and unemployment, inflation and interest rates are all low. Three in four Australian adults are on the global rich list; counted amongst the world's top ten per cent of wealth owners. Australia has the third-lowest public debt in the developed world, and economic growth has outstripped that of most other developed countries for over two decades. The average net disposable household income in Australia is the fifth highest in the world,¹¹ and we have the highest minimum wages in the world.

But we seem to be suffering from a sort of reverse anorexia. The fatter Australia's economy gets, the more Australians talk as if we're starving to death. As Ian McAuley notes in Chapter 7, there is a big gulf between the views of Australians who answer surveys on consumer and business confidence and the views of economists in the International Monetary Fund, the OECD and ratings agencies. People coming home from their travels in Europe or the United States now arrive with a sense of shock at just how far Australia's position has diverged from the rest of the Western world, and how little gratitude we have for our good fortune. The Herald Sun's James Campbell returned from a few months overseas in 2012 to a nation of Hanrahanes:

*'...from reading the headlines while I was away, I was bracing myself to return to scenes of 1990s-style economic devastation. But despite the well-publicised recent job losses in Victoria, the fall in Melbourne's property prices over the past two years and the constant whining of retailers, the sky is clearly not falling in.'*¹²

Foreign news outlets are likewise bemused. Euromoney magazine named Treasurer Wayne Swan 'finance minister of the year' in 2011 for his role in

shepherding Australia's economy through the global financial crisis. The magazine was aware that Australian voters might not be in a mood to hand their Treasurer a bouquet for his achievements: 'surrounded by the consumer baubles that wealth brings, grumpy Australians don't seem to appreciate how good they've had it'.¹³

Guardian Journalist Paula Totaro was mystified by Labor's political fate: 'While the rest of the world lurches from crisis to economic crisis, the land of Oz is powering ahead...So what does its Labor government do? Attempt suicide.'¹⁴

We may even be overtaking the Poms in the misery stakes, with one survey finding that we rate our own wellbeing much lower than people in the UK.¹⁵ This is quite an achievement at a point when the Cameron government has responded to their flatlining economy with savage spending cuts and the unpopular 'Big Society' policy of privatising everything that isn't tied down, including the much-loved National Health Service.

Comedian Adam Hills took time out from forgetting Home and Away stars' names at the 2013 Logies to marvel at the contrast:

'We are one of the wealthiest countries on the planet, we've got the most stable economy, we've got the best standard of living and that's why people are talking about voting out the current government...Like seriously, I've just come back from London and they are so poor over there, they look at us and they can't believe we're considering getting a new government.'¹⁶

So what have we got to complain about? Find Australians defending their right to whinge about the economy and they'll probably point to the rising cost of living. Of those who thought the economy was in poor shape in 2012, 34 per cent thought living costs were the main culprit.¹⁷

The Centre for Policy Development's Ian McAuley delved into the statistics last year in an attempt to find out whether rising living costs really mean that households are 'doing it tough'. Over the six years to June 2011, average incomes ran more than one per cent ahead of inflation. In most households, even where spending is heavily weighted towards costs that have been rising faster than inflation, incomes have been rising faster still.

Renters and people receiving government benefits other than the age pension *have* been genuinely squeezed by rising living costs, but these are not the people usually found complaining in newspaper articles or on talkback radio. And there's a lot less of them than the 88 per cent of Australians who say that cost of living pressures are greater today than they were five years ago.¹⁸

People have a more accurate perception of their own situation than of the economy generally. Between 2007 and 2010 there was a much bigger jump in the number of people who thought that everyone else's living standards had fallen than in the number of people who thought they were worse off themselves.¹⁹ Perhaps this is not surprising. To judge your own financial position you can just open your bank statement. To judge how everyone else is doing, you're more likely to open a newspaper, where you will find headlines such as: 'Rate fears as cost of living hits new high'; 'Cost of living goes up, up' and 'Struggling nation pleads for mercy'.²⁰

In 2011 the National Centre for Social and Economic Modelling was commissioned by the Herald Sun to look at living costs, and found that the average

Australian household had become \$23 a day better off over the past five years. Yet the editorial on the report the paper had commissioned was not swayed by its findings: 'Many are doing it hard, trying to cope with the jump in basic living costs.'²¹ It is of course rare for national statistics to get in the way of a good story. Australia's media outlets haven't sacked their crime reporters just because the country is getting safer.

Labor also bears some of the responsibility for making our public debate resemble a #1stworldproblems twitter feed. In 2007 John Howard made a throw-away remark in Question Time which he probably thought was uncontroversial: 'Working families in Australia have never been better off'. The opposition couldn't believe their luck. They portrayed Howard as out of touch with ordinary voters and their struggles with the cost of living. (The fact that WorkChoices was beginning to bite at the time didn't help his cause). Kevin Rudd made living costs a major focus of his election campaign, but offered little policy substance on the issue apart from beefed-up consumer watchdog services in the form of 'grocery watch' and 'fuel watch'. The Labor campaign team made billboards featuring nothing but the 'never better' quote and John Howard's face. One of the billboards was vandalised after being mistaken for a Liberal party ad by angry voters.

Just as Wayne Swan had trouble defending his 'world's greatest treasurer' title, Peter Costello struggled to defend Howard's claim: 'If you look at the number of people in work, their wages, their lower taxes, their higher family tax benefits, I don't think you can contest that people are significantly better off.'²²

On the numbers, Costello was right, just as Kevin Rudd is right to boast of his economic management during the Global Financial Crisis. Being right about the economy may not necessarily win votes, however. As Philip Coorey put it in the Sydney Morning Herald, 'Kitchen table economics had triumphed over macro-economics.'²³ An article by Andrew Bolt²⁴ back in 2007 makes for amusing reading in retrospect:

'Night after night I see ads starring a new Whingeing Wendy, whining how Howard once said "working families have never had it so good".

"Really, Mr Howard?" she snarls with a voice like a bandsaw... "How can you say that when my childcare and grocery prices are higher than ever?" On she goes, yammering about her various bills, like someone astonished to find herself living in an age where you actually had to pay for stuff.

One of the keys to Kevin Rudd's success in 2007 was a willingness to cater to voters' perception that they were under pressure from rising costs of living, when unless you were in the bottom quintile of income earners, your real income had been rising much faster than prices for over a decade. Voters thought they faced cost of living pressures, but in fact most of them faced cost of lifestyle pressures.'

Doubtless we can all look forward to Bolt chastising Tony Abbott on the same grounds, given that he has turned the 'I feel your pain' dial up to eleven. The Opposition leader has been working very hard to turn 2013 into a referendum

not just on electricity costs but costs in general: 'This election will be about trust. Who do you trust to reduce cost of living pressures?'²⁵

If the state of the economy under Labor hasn't been enough to satisfy voters, is there any reason to believe that Abbott would face an easier time of it if elected? Would we see him mobbed by angry voters and a resurgent Opposition back on the 'ease the squeeze' bandwagon after the first interest rate hike? And would that be a good thing?

Even a Coalition government could struggle to convince us that we have never been better off, should it wish to do so again. It seems unlikely that removing the carbon price will do the trick, given that it has made up just a small fraction of the rise in the cost of electricity over the past six years,²⁶ and electricity bills are themselves a small fraction of household expenses.²⁷ As Crikey columnist Bernard Keane has observed, 'it's easy to stoke voters' misapprehensions but much harder to do anything about them'.²⁸

What's really making us anxious?

Are we really 'the world's most spoilt and ungrateful voters', as James Campbell wrote in the Herald Sun,²⁹ or is there a deeper explanation of the disconnect between glowing economic indicators and gloomy opinion indicators?

Certainly there's an element of expectation inflation, or what Bolt called 'cost of lifestyle pressures'. Our perceived struggle to make ends meet did not, for example, prevent average household spending on art, culture and entertainment from increasing much faster than inflation over the six years to 2009-10.³⁰ And while it's true that much of the astronomical increase in house prices over recent decades can be explained by homebuyers bidding up the price of existing housing,³¹ the debt boom was also associated with a big expansion in house sizes: the average floor area of new houses increased by around 40 per cent between 1984-85 and 2002-03.³²

A partial explanation can be found in the fact that the prices that have been spiking are for goods and services that we pay for in big chunks, with very little control over the timing – like bills for electricity, gas, private schooling and health insurance premiums. Items whose prices have been declining or rising more slowly than inflation – like clothing, cars, and other consumer goods – tend to be infrequent purchases, so we notice their prices less.³³

Our return to sanity on saving has also had an impact on the amount of spare change jingling in the pockets of Australian consumers, and the cash registers of retailers.³⁴ The household saving rate declined during the debt-fuelled housing boom of the 80s through to the mid-2000s (going negative in 2003), and has since recovered to over 10 per cent. Household spending is no longer growing faster than incomes – it declined in real terms in 08-09 and has bounced back slowly since then.³⁵ House prices have also returned to earth,³⁶ undermining the reassurance that many a heavily indebted homeowner felt when her neighbour's house sold for a packet.

Even taking each of these factors into account, however, it's hard to understand how Australians manage to feel less 'financially secure' than Europeans, including people in Spain and Italy – according to a 2012 survey by Boston Consulting Group.³⁷

Some of Australia's most thoughtful and insightful journalists have written about this question over the past few years. Reading recent reflections on the issue, such as George Megalogenis' *The Australian Moment* and Peter Hartcher's *The Sweet Spot*, it is tempting to conclude that the average voter has the memory of a goldfish – and a depth of perception to match.

Hartcher is worried that Australians seem 'ready to blame their government for any economic problems that might emerge, but unwilling to give them any credit'.³⁸ Megalogenis is, rightly, concerned that 'whatever we achieve can't be achieved if whingeing becomes the default answer of public life'.³⁹

Fresh from a long stint as chief of staff to Wayne Swan, Jim Chalmers has recently joined them with a new book that pins the blame for our 'lack of national swagger' on a public conversation in which 'hyper-partisanship swamps the facts, short-term priorities swamp the future, and sectional interests swamp the national interest'.⁴⁰

These authors are right to draw attention to the need for our public conversation to focus on Australia's real challenges rather than misplaced anxieties. Australia made some very smart moves when the Global Financial Crisis first came snapping at our door. If we now cry wolf in the face of relatively minor problems, will we be willing to do what it takes to deal with the much more significant global transformation currently underway?

But there's something missing. Every time I read an elegy to Australia's economic performance I find myself thinking of 'Saskia', who responded to an excellent, fact-filled article by Scott Steel on ABC's *The Drum* with the question: 'How about asking real people how they are doing? Actually getting off the ABS website and into the light might blow your mind'.⁴¹

People are much more likely to doubt the truth of a statement that has failed to connect with them on an emotional level. Jim Chalmers shed light on this problem when he asked 'How can a country that's grown for twenty-one consecutive years be so pessimistic?' Perhaps because it's not 'the country' that has grown but the economy, and both the benefits of that growth and the growing pains that accompanied it have been unevenly spread. Perhaps also because pessimism is about the future, not the past, and Australians are justifiably concerned about our preparedness for the challenges ahead.

Australia unsettled

Australians are still divided on the transformation of the public and private sectors that began when the Hawke-Keating government dismantled the 'Great Australian settlement'. At its best, the economic reform agenda implemented from the eighties onwards shook up complacent and inefficient businesses and government departments and helped deliver a more innovative, dynamic and prosperous economy (as Ian McAuley and Geoff Gallop argue in Chapters 7 and 10). At its worst, it increased inequality, distanced governments from communities, deskilled the public sector, offloaded too much risk from governments and businesses onto individuals, and replaced unresponsive public monopolies with unresponsive, unaccountable and unaffordable private monopolies. It also shrank the space in which we are free to act as citizens and community members rather than as consumers: more megamalls, fewer public halls.

Both major parties are happy to claim credit for the economic benefits of a more open economy but reluctant to speak directly about its costs. This is a problem. We may spend more of our time than ever before in the marketplace, but as Eva Cox argues in Chapter 4 we do not live our entire lives as economic actors, nor do we want to. The wellbeing of 'real people' is shaped above all by our relationships with family, friends and coworkers. We value security as well as choice, fairness as well as freedom, time as well as money.

With this in mind, it's worth considering a few areas in which Australia's world-beating performance is beginning to wane:

- Australians spend less time eating, sleeping and relaxing than the OECD average. Only six countries in the OECD have a higher proportion of the workforce working very long hours.⁴² Eva Cox argues that our welfare system has failed to adjust to a world in which more women have jobs and the need to juggle paid and unpaid work is growing.
- As Lisa Heap argues in chapter 6, many Australians will go through their working lives as if WorkChoices were never repealed: an unusually high proportion of our workforce are casual workers who have very few entitlements compared to their counterparts in other developed countries. Around 90 per cent of Australians report working intensively (at very high speed and to tight deadlines) for at least a quarter of our time, compared to around 60 per cent of Europeans.⁴³
- Our levels of inequality are higher than the OECD average, and on the rise.⁴⁴ As noted in Chapter 1, after several rounds of income tax cuts our tax system does less to reduce inequality than it did in past decades. The Howard government dampened rising inequality by spending up big on middle-class welfare, while the Rudd and Gillard governments did the same by means-testing at the top, but neither really tackled the issue head on.
- Australia's unusual practice of publicly funding private schools based on historical precedent rather than student need is not working out for students in middle-income and low-income areas, and makes many anxious parents feel obliged to pay expensive fees to secure a good education for their children – as outlined by Chris Bonnor and Jane Caro in chapter 2.
- As noted in Jennifer Doggett's chapter, Australians pay for a high proportion of our health care costs through direct payments compared the citizens of most other rich countries. While universal health insurance through Medicare has helped deliver excellent health outcomes at a low overall cost, this achievement is being undermined: poorly designed co-payments, fee-for-service models and underinvestment in public health encourage overconsumption of higher-cost health services; while tax breaks for private health insurance subsidise those who can afford it to jump the queue to access scarce specialists.

Put together, it makes for a stressed-out population, afraid of falling behind and feeling like we have no choice but to fend for ourselves. Large parts of our social contract are being re-written with very little scrutiny or discussion.

It is illuminating to look at concerns about the cost of living through this lens. The shift from direct service provision to outsourced services, indirect subsidies and tax breaks often increases costs while making the benefits of government

less visible. Australians may not have noticed that we're now living in low-tax country with low public debt, but we have certainly noticed the underinvestment in public services that goes with it – especially transport infrastructure. The shift towards private health insurance and private schooling is also a big pressure on many household budgets: increasing voters' confidence in public health and schooling could save them a great deal of money and improve equity at the same time. The alternative is to continue on our slow sleepwalk towards socially segregated services, with high-income earners and lucky members of the middle opting out, and the rest squeezed into underfunded safety nets.

Laura Tingle put her finger on it in 2012 when she wrote:

*'It is wrong to see the anger of the last few years as a 'one-off,' which might go away at the next election. The things we are angry about betray the changes that have been taking place over recent decades. Politicians no longer control interest rates, the exchange rate, or wages, prices or industries that were once protected or even owned by government. Voters are confused about what politicians can do for them in such a world.'*⁴⁵

As with concerns about the cost of living, it's possible that anxiety in some parts of the community over both asylum seeker arrivals and immigration is partly a proxy for a broader sense of overstretched insecurity. Countries with higher inequality tend to have lower levels of trust, and vice versa.⁴⁶ In the UK, a major study found that poverty and inequality were six times more likely than ethnic diversity to cause people to be suspicious of their neighbours.⁴⁷ In Australia, rising unemployment has historically coincided with rising opposition to immigration.⁴⁸ As the ABC's Jonathan Green has argued:

*'This is fertile ground for a national debate by shadow-play and proxy, where first a villain is created, a body of people who might strain already depleted resources, place stress on welfare and housing, give a sense of unfair competition for the scarce prizes of the jobs market. And having created that sense of unfair imposition, our politicians can build empathy through their toughness towards the imagined foe.'*⁴⁹

Latent prejudice does, of course, make it easier to cultivate anger towards such proxy villains. Racism and prejudice will always need to be tackled directly, whether through community-level initiatives such as the excellent work of the Australian Human Rights Commission's 'Racism: It Stops With Me' campaign⁵⁰ or through national leadership, which has been sorely lacking lately. But it's worth considering how much heat might be taken out of debates over asylum seekers, immigration and cultural diversity by a government which ensured that investment in infrastructure and services kept pace with population growth, and which made a rock-solid commitment to tackling inequality, deliberately appealing to the kind of egalitarian patriotism that Lindy Edwards proposes in her chapter.

Megatrends and dead ends

There's nothing quite like being on top of the world to bring on an attack of vertigo. Reconnecting Australia's public debate with the reality of our good economic fortune may not do much to calm us down, given the evidence that the fear of loss looms larger than the potential for gains in the human mind.

We can't rule out the possibility that Australia could end up like the United States: overtaken by countries that once envied us. But we'll have a much better chance of thriving in an uncertain world if we base our decisions on a clear understanding of the profound global changes currently underway. No one wants to live in a Kodak country – a nation that falls behind by failing to recognise that the world around it has transformed. (A Kodak engineer invented the digital camera back in 1975. In 1981 internal research told them that digital photography could make film obsolete, but they had time to make the transition. They didn't, and went bankrupt in 2012.⁵¹)

The world is reaching the end of a Ponzi-style growth model, in which an expanding credit bubble and the liquidation of natural capital underpinned a great deal of consumer demand and company profits.⁵² Demographic shifts may limit the potential for easy gains from young and growing populations, and in many places the moral limits of markets are again making themselves known after years of neglect. There are abundant opportunities for progress in such a time, but there are also great risks.

Climate change and other resource constraints

Just as the mispricing of risk has caught up with the finance sector, the mispricing of environmental damage and resource depletion is catching up with the entire economy. Not only have we maxed out the climate's credit card, we are running down our supplies of fertile land, fresh water, fish stocks, and mineral resources. Concerns about climate change and the health effects of combusting fossil fuels are combining with rising resource prices to spark a new industrial revolution, which could lead to a wholesale shift from fossil-based to renewable energy and from resource-intensive to resource-conserving production.⁵³

It's not without precedent for industrial revolutions to be heavily politicised, volatile and disruptive affairs, and this one is certainly not without its mill-smashing Luddites. As John Wiseman's chapter points out, burning the reserves currently held by the world's fossil fuels corporations would release over five times the safe level of greenhouse gases. It's hardly surprising, therefore, that governments across the world meet with fierce resistance from powerful incumbents when they introduce policies designed to combat climate change and hasten the transition to clean energy. It is by no means certain that the public interest will triumph over vested interests: while climate action is gathering pace, it is not yet doing so fast enough to prevent dangerous levels of warming.

Wiseman's chapter records the growing number of mainstream business voices and international institutions that are recognising that rapid and disruptive change is no longer avoidable – either we speed the shift away from fossil fuels or we divert a large and growing slice of the world's resources to managing the impact of more extreme weather events on food production, infrastructure and private property.

The Bretton Woods order and its collapse

Like an earthquake that breaks out after a long period of accumulating pressure between tectonic plates, the Global Financial Crisis exposed weaknesses in economic structures. Many economists were well aware of these weaknesses. Although they did not know the timing nor the precise pattern of the coming crisis, they knew it would come, but in a time of economic exuberance it was hard for the voices of caution to get a hearing.⁵⁴

To appreciate the nature of these weaknesses, we need to look back to 1944. In the wake of the terrible events of the preceding 30 years, representatives of the soon-to-be victorious powers met at Bretton Woods in New Hampshire to hammer out a set of rules for a postwar economic order. After the Great Depression and its consequences it was evident to those on both the left and right that the capitalist model itself, to use the words of Karl Marx, bore the seeds of its own destruction. To the Soviet delegates that was a source of encouragement, while to the others it was a challenge to devise a form of capitalism which could protect itself from those destructive forces.

That economic order saw a loosening of trade restrictions – eventually embodied in the rules of the World Trade Organization. In most countries this was coupled with the recognition that a stable capitalist system could not exist in a vacuum. It required the guiding hand of a strong state to set the rules of the market, to spend up during downturns and stop booms from turning into bubbles, to provide public goods where the market failed, and to ensure that the benefits of economic progress were distributed fairly enough that most people would see the system as legitimate.

The specific arrangements of the Bretton Woods order fell apart in the early seventies, when the fixed exchange rate agreements collapsed: currencies had been subject to an accumulation of stress similar to what is now happening in the Euro zone. (Through a quirk of history, the collapse happened on the Whitlam Government's watch. One day an Australian historian will write about the Labor Party's habit of gaining office just as the global economic order is about to come apart.) At the same time there was a huge rise in the price of oil, which helped fuel inflation. That inflation helped write down the debts governments incurred as they tried to spend their way out of the crisis – a luxury denied to them today.⁵⁵

The failure of many governments to deal with that crisis undermined many people's perception of the role of government, and made way for the anti-government, pro-market ideologies of the 1980s. But it was the collapse of communism that really made way for governments to take the fetters off capitalism.

Finance unfettered

One such unfettering was loosened control on the financial sector. Most notably in the United States in 1995 the Clinton Administration repealed the Glass-Steagall Act which had separated commercial and investment banking. In effect, the finance sector was transformed from a utility, servicing the real economy, to a major economic player in its own right. There followed a massive increase in the money supply, with figures on the bankers' books losing any attachment to assets in the real world.

A crash was inevitable, and five years later there is still little confidence in the finance sector. Having given it so much power, governments are reluctant to rein it in, lest in the process it wreaks havoc again. The danger of such a dynamic is powerfully demonstrated in some tape recordings that surfaced recently, in which Anglo Irish Bank executives laugh about lying to the Dublin government over bailout figures.⁵⁶ Until the finance sector is brought under control and stabilised, the lack of trust will remain. In the short term that means an ongoing shortage of credit for long- and medium-term business investment and in the longer term a highly uncertain future which could hold anything from another outbreak of irrational exuberance through to deep depression.⁵⁷

Inequality unleashed

A related development has been a huge growth in inequality. The spectre of Soviet success had made it easier to argue for measures to keep inequality within bounds in capitalist countries. Progressive taxation seemed a small price to prevent revolution; universal public services and social security were a moderate alternative to the socialisation of the means of production. Well before the fall of the Berlin Wall however, the West's fear that socialism posed a viable alternative to the capitalist order had already begun to crumble into rubble. Once politicians like Thatcher were free to proclaim 'there is no alternative' with confidence, many of the compromise options hammered out by social democrats began to be dismantled.

As inequality grew many people were able to sustain their living standards with debt. In the United States this was mainly in the form of extended personal debt, helped by the wealth illusion of rising real-estate prices, as well as a permissive financial environment. Several European governments took a different path, propping up domestic spending power by paying out generous social welfare and financing the debt with overseas borrowing. (Australia did a little of both – household debt rose significantly in the decades leading up to the crash, and a series of tax cuts and increased welfare spending under the Howard and Rudd governments pushed the Commonwealth budget into structural deficit.)

All of this suited China, which found ready markets for its growing consumer-good industries. It was a neat arrangement, provided one didn't look too closely at its workings, as it was essentially based on poor people lending money to rich people to buy things made by poor people. It may go on for a little while longer, as the US and European Governments pump liquidity into their economies, but eventually governments will have to find some way of dealing with inequality other than relying on debt – not only because it's morally bankrupt, but because it's economically damaging. As even the conservative market-oriented magazine *The Economist* wrote in an editorial, '... inequality has reached a stage where it can be inefficient and bad for growth'.⁵⁸

A global economy in transition – but where to?

We live in interesting times. History will probably record the Global Financial Crisis as the 'Berlin Wall moment' for hardline free-marketeers. Faced with irrefutable evidence of the disastrous impact of the global financial crisis and the human and economic cost of austerity, we are re-learning an old lesson:

markets make great servants but terrible masters. Many have not yet accepted this however, and are working hard to shift the blame for current economic conditions away from the finance sector's excesses and towards the governments that bailed it out and sent themselves broke in the process.

The world is dealing with multiple structural adjustments at once. In a globalised world some of these broad long-term trends are likely to interact with each other in unpredictable ways. The clean energy transition could accelerate, or skillful lobbying and the growth in unconventional oil and gas could derail it. Rising demand for resources from an increasingly affluent population in Asia and the rest of the developing world will push in one direction, while the emerging trend for wealthy consumers to favour services over material goods will push in another.⁵⁹ We could see the value of labour decline relative to goods, as more people bid up the price of limited resources. But we could also see a rise in the demand for both skilled and unskilled labour as populations age in the West and in China.

The transitions currently underway will be volatile and uneven, but the broad shift is towards what might be called 'human capitalism' – an economy that operates within environmental and resource limits, in which the finance sector serves the real economy, and in which genuine value is created through the investment of human time and ingenuity. The chapters by Ian McAuley, Roy Green, John Wiseman and Lisa Heap suggest that for Australia to navigate the coming decades successfully we need to:

- Encourage productive, long-term investment over short-term speculation
- Shift from value extraction to value creation
- Look for productivity gains based on the work of skilled people, skillfully managed – rather than joining a race to the bottom on salary costs or working conditions
- Bring our economy within environmental limits and take resource productivity seriously
- Speed the transition that is already underway towards service-based rather than resource and energy-based consumption

IT'S DOWN TO US: WHAT'S NEXT FOR AUSTRALIAN PROGRESS

Attempts to explain what went wrong for Labor and right for the Coalition over the past three years would resemble the story of the blind men and the elephant, if the men in the story had blogs and newspaper columns in which they could argue at length over whether the elephant was a rope or a tree. No doubt many luminaries are lining up to write lengthy post-election tomes on why their preferred combination of explanations is the best one. Suffice it to say that Labor's political troubles have not been caused by the progressive nature of its policies, which are mostly quite popular.⁶⁰ The Coalition clearly agrees, as it has adopted many of them.

Whatever shape the next government takes, it will be leading an electorate with the same fears and hopes, in the face of the same local and global challenges. The contributors to *Pushing Our Luck* pose some fundamental questions for a government that wishes to step up to those challenges:

- What comes after the mining boom?
- How can we give every child an equal start in life?

- Can we adapt our existing health system to meet changing needs, or do we need to transform it from the ground up?
- How can we adapt the welfare system for an era in which more women are in paid jobs and not everyone who wants work can find it?
- Who should pay for better public services, and how?
- What would Australia look like if we took climate change seriously?
- Are there viable alternatives to insecure work?
- Can we stop the next culture war before it begins?
- What would it take to build well-founded trust in government?

There is no one right answer to these questions, and even the contributors don't agree on everything. Readers may not support every recommendation by every author; I disagree with a few of them myself. And, of course, many equally important issues and perspectives aren't covered in a ten-chapter book. But it's this kind of in-depth, transformative thinking we need to make the most of Australia's good fortune. It's not enough to tell a continent of Hanrahans that we're beating the rest of the rich world, so far. We still need to be able to show how life as we know it here could change for the better.

Australia didn't become one of the best places to live in the world by accident, but by activism. The stagnant nature of modern politics makes it easy to assume that the river of progress is damned, or at least heavily silted, but most of the major obstacles are surmountable. In many cases the public support for change is already there, waiting to be mobilised. On the tough sells we can learn, as John Wiseman suggests, from Milton Friedman:

*'Only a crisis – actual or perceived – produces real change. When the crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.'*⁶¹

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CHAPTER ONE

Chipping In: Paying for a Good Society



by Adrian March, Miriam Lyons,
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INTRODUCTION

Australian taxpayers are currently paying bargain basement prices for the services our governments deliver. We have the fifth lowest taxes in the developed world.¹ Yet we have one of the best health systems in the world² and we have a better-educated population than many other rich countries.³ Our overall living standards are remarkably high: Australia ranks behind only Norway in the UN Human Development Index and tops the OECD's Better Life Index.⁴

However, like many bargains, Australia's low taxes have hidden costs. We are starving important public services of the funds they need to do the job properly. We are setting ourselves up for permanent budget deficits. In an attempt to keep

both taxes and public debt low, governments have privatised assets that would have been better off in public hands and used costly Public Private Partnerships instead of borrowing to invest in infrastructure. We are also leaving ourselves with very little room to respond to challenges like our ageing population, a hotter and more unstable climate, and the need to build a more robust economy that can thrive in the face of global competition.

We need to reconnect the tax debate with our fundamental assumptions about what Australia's future should look like. The Henry Tax Review got it right when it asked for submissions to link their recommendations for our tax system to 'the community's aspirations for the type of society that Australia should become over the next two decades and beyond'.⁵

Tax allows us to collectively pool our resources to solve shared problems and to build the common infrastructure we need to fulfill our individual needs and dreams. It's the price we pay for knowing that medical bills won't send us bankrupt, that any child can get a decent education regardless of their parents' incomes, and that losing our jobs won't put us on the streets. An adequate tax base alone doesn't guarantee these things - effective government institutions are also required. But the failure to raise enough tax revenue does guarantee inadequate services over the long term.

How we tax and what we do with the taxes we collect is a statement of what we value as a society. We could use our tax system and government spending to deliver the improved services and reduced inequality that Australians say we want, without hurting our economy. The fact that we are not currently doing this is a matter of choice, not necessity.

FAST FACTS: Tax-funded services are good for the economy

When we think about the impact of taxes on the economy we should also think about the economic benefits of the services our taxes pay for. Here are just a few examples:

- High-quality education and health systems are essential for a productive workforce⁶
- Governments are more cost-effective at delivering services in areas where private markets fail (e.g. roads, trains, health insurance) - so we can get better value from the same spending by joining forces to fund those services through our taxes.⁷
- Keeping inequality within bounds increases trust,⁸ which lowers transaction costs.⁹ The combination of growing inequality and easy access to credit may have contributed to the Global Financial Crisis by encouraging middle and low-income households to save less and borrow more in an attempt to keep up.¹⁰
- Skilled public servants design policy and regulate markets in ways that deliver substantial economic benefits. Commonwealth Treasury's well-designed response to the Global Financial Crisis helped avert recession, as did our more attentive banking regulation.¹¹

Some of our low spending on public services is the result of careful design. For example, universal health insurance through Medicare is a smart way to achieve great health outcomes at a low cost. Our welfare system is the most targeted in the rich world, doing more to reduce inequality per dollar of government spending than in any other developed country. However, in some cases we're just being downright miserly:

- Australia's income support for people who can't find work, Newstart, has fallen from 54% to 40% of the minimum wage since 1996. In 2010, the latest date for which we have comparable data, Australia had the fifth lowest unemployment benefit amongst OECD nations. The OECD has taken the rare step of suggesting that Australia's unemployment benefits might be too low. The Business Council of Australia agrees.
- Our public investment in education is low compared to other developed countries (1.1 per cent of GDP compared to an OECD average of 1.4 per cent). We also neglect early childhood education, with low participation rates and public funding compared to other OECD countries.
- Australia was the second last developed country to introduce paid maternity leave (the United States remains the only developed country without it). The 18-week scheme introduced by Labor is a little under the OECD average, making it less generous than the support given to new parents in many poorer countries.

Moreover, the Commonwealth government may be facing a decade of structural deficits. In April 2013, the Grattan Institute made headlines by arguing that deficits of around 4 per cent of GDP could be hard to shake if current trends continue.

HARD CHOICES - THE REALITY TRIANGLE

Most businesspeople are familiar with the 'good, fast and cheap' triangle. Sometimes called the 'reality triangle', the idea is that a product or service can have any two of these desirable qualities, but you should be wary of anyone who promises all three. Modern governments face their own version of the reality triangle, with the three points being low taxes, balanced budgets, and high-quality public services. Countries can have low taxes and balanced budgets, or balanced budgets and high-quality public services, but they can't have all three. In other words, low taxes are fiscally unsustainable in a high-service country. A trade-off is required.

No government can escape this choice for long

The instinct to promise the full trifecta without thinking through the consequences explains mixed messages by both major parties in 2013.

The International Monetary Fund fingered the final years of the Howard government for 'profligate' tax cuts.

But Labor is far from blameless; Kevin Rudd matched John Howard's promised income tax cuts before the 2007 election, purely to neutralise them as a political issue. George Megalogenis quotes a senior Labor figure at the time saying 'We'll have to f***king wear it.'

The Australia Institute estimates that the income tax cuts implemented between 2005-06 and 2009-10 cost the 2011-12 budget around \$38 billion. Labor would have had a lot less red on its ledger this year had it not made such an ill-considered promise back in 2007.

Landmark policies like the National Disability Insurance Scheme and Gonski are also made precarious by Labor's reluctance to implement revenue-positive tax reform: it has tended to push spending far out into the forward estimates, and it keeps shifting large parts of the responsibility to cash-strapped states. The 0.5 per cent increase to the Medicare levy will help fund the NDIS, but falls well short of the expected cost of the scheme.

The Coalition began 2013 promising both budget surpluses and tax cuts, while suggesting that public services would not suffer. The carbon tax would go but the associated income tax cuts would continue. The mining tax would also go, but a business tax cut was still on the way. Earlier, in March 2012, Shadow Treasurer Joe Hockey had given an 'absolute guarantee' that the Coalition would deliver lower taxes than a Labor government.

A party that won government on the back of such a platform would face a choice between breaking promises on surpluses, breaking promises on spending, or adopting the kind of unpopular cut-backs pursued in Queensland. There's always privatisation, of course, but so much has been sold off already that there aren't many options left.

It's therefore not surprising that by April the Coalition had already backed away from the commitment to 'deliver a surplus in our first year and every year after that'.

Until they face up to the reality triangle, the promises of both major parties will either lack substance or set them up for embarrassing reversals.

Talking sense on debt and deficits

It's time for Australia to stop panicking about short-term budget deficits - and start thinking about long-term fiscal sustainability. There's a widespread idea - fed by too many economically illiterate politicians and journalists - that budget deficits are always bad for the economy. In fact, running budget deficits during downturns is far more economically responsible than the alternative. Market economies have always featured booms and busts, otherwise known as 'the business cycle'. The big lesson Keynes learned from the Great Depression is that governments have an important role in stabilizing the economy throughout the cycle. When business is booming, governments can take the edge off and help prevent an outbreak of inflation or asset speculation by accumulating surpluses. When the economy tanks, governments can stimulate it by running deficits - spending down past surpluses or going into debt. This is known as 'counter-cyclical' or 'Keynesian' fiscal policy.

Much of the work of stabilizing the economy happens automatically through the impact of the business cycle on government budgets. When profits rise and unemployment falls, governments get more revenue and spend less on unemployment benefits. When profits fall and unemployment rises, governments get less revenue and spend more on unemployment benefits. Economists refer to these twin impacts as 'automatic stabilisers', and they're the main reason that

we can't judge the quality of a government's economic management by the size of the deficit. As Ross Gittins put it: 'To decide how worrying a budget deficit is, you have to know about the state of the economy at the time.'

The automatic stabilisers help smooth out the business cycle, but may not be sufficient to prevent a downturn from turning into a downward spiral. Especially during major crises, active stimulus can be necessary to shift what Keynes described as the role of 'animal spirits' in the economy – to prevent borrowing, lending and spending from grinding to halt based on the fear that the future will be worse.

Ideally, stimulus spending will invest in lasting assets that can be rolled out quickly, but when that's not an option governments are justified in stimulating consumption instead, given the ultimate costs of major downturns. Ultimately, investors are not filled with confidence by a government that balances its books while the economy declines, but by the expectation that people can and will buy what they have to sell. As noted in Chapter 7 by Ian McAuley Australia's stimulus package was very effective in preventing recession.

THE TROUBLE WITH AUSTERITY

Once a fan of belt-tightening under any circumstances, the International Monetary Fund (IMF) has reversed its position on austerity. A major IMF study found that:

- Their forecasts were too optimistic for countries that pursued large austerity programs: austerity was doing much more damage to those economies than they had expected.
- Countries that stimulated their economies instead, such as Germany and Austria, did better than they had expected.

Because austerity undermines growth, it can increase deficits instead of shrinking them, which rather defeats the purpose. The London-based National Institute for Economic and Social Research has found that the ratio of debt to gross domestic product will be around 5 per cent higher in the U.K. and the Euro zone because of the austerity policies pursued from 2011 to 2013.

One of the reasons the U.S. is rebounding faster than Europe is that it has not pursued the same level of austerity.

Good and bad deficits, and how to spot the difference

Most mainstream economists worry about 'structural' as opposed to 'cyclical' deficits – the former being deficits that would be present if the economy were growing at its average rate. A structural deficit can exist even if the budget is in surplus – this was the basis of the IMF's criticism of the Howard government in its later years. While the government did accumulate surpluses, given the rapid upswing in the commodity cycle at the time, the combination of permanent tax cuts and increased spending created a structural deficit.

Malcolm Turnbull spelled out the orthodox position on structural versus cyclical deficits quite clearly in an article last year:

1. 'Governments, like businesses, can see spikes in revenues when the business cycle booms.
2. These spikes can be particularly high for economies which are commodities based – as Australia's is in large part.

3. If that cyclical spike in revenues is used to create ongoing increases in spending (increases in benefits for example) which cannot be met from ongoing revenues when the boom subsides then that increase in spending can be described as unsustainable.
4. Equally if that spike in revenues is used to reduce taxes to a level (i.e. by reducing tax rates) such that when the boom subsides the ordinary revenues of government cannot fund its ordinary and necessary expenditures then those tax cuts can be described as unsustainable.
5. One-off infrastructure investments made with the proceeds of mining boom revenues will not create a structural problem...'

What about borrowing to invest?

There's a strong argument that when the Commonwealth government can borrow cheaply and the Australian dollar is strong, it's a great time to invest more in infrastructure.

So what's the role of debt-financed investment in a sensible fiscal policy? This is where the concept of 'net public worth' comes in – over the long term, just as ongoing revenue and ongoing spending should balance out, public debt should be matched by a similar or higher value of public assets.

Real net public worth is tricky to measure well, especially in a federal system where Commonwealth spending on state infrastructure increases the Commonwealth's net debt while adding to the states' assets. In fact a great deal of Commonwealth spending increases the value of 'assets' that it doesn't own: investment in education increases Australia's stock of human capital and investment in the environment increases the value of our natural capital. Conversely, mining taxes and royalties increase government revenue while depleting our stock of natural capital. Attempting to incorporate all of this into a national balance sheet is an accountant's nightmare, although the Australian Bureau of Statistics is giving it its best shot through projects like the 'Measures of Australian Wellbeing'.

Good judgment must be exercised in assessing whether a government can afford to take on debt over and above Keynesian counter-cyclical spending, because of these and other factors.

A straightforward case can be made for borrowing to invest in productive assets with clear economic benefits that will increase revenue from taxes or charges enough to service the debt (Germany's excellent road and rail networks are a good example). On the other hand long-term borrowing to prop up domestic incomes, as Greece was doing before the crash, is clearly a bad idea. In general, long-term revenue should be sufficient to fund long-term spending commitments – which is why Australia needs to grow its tax base, despite having one of the lowest debt to GDP ratios in the developed world.

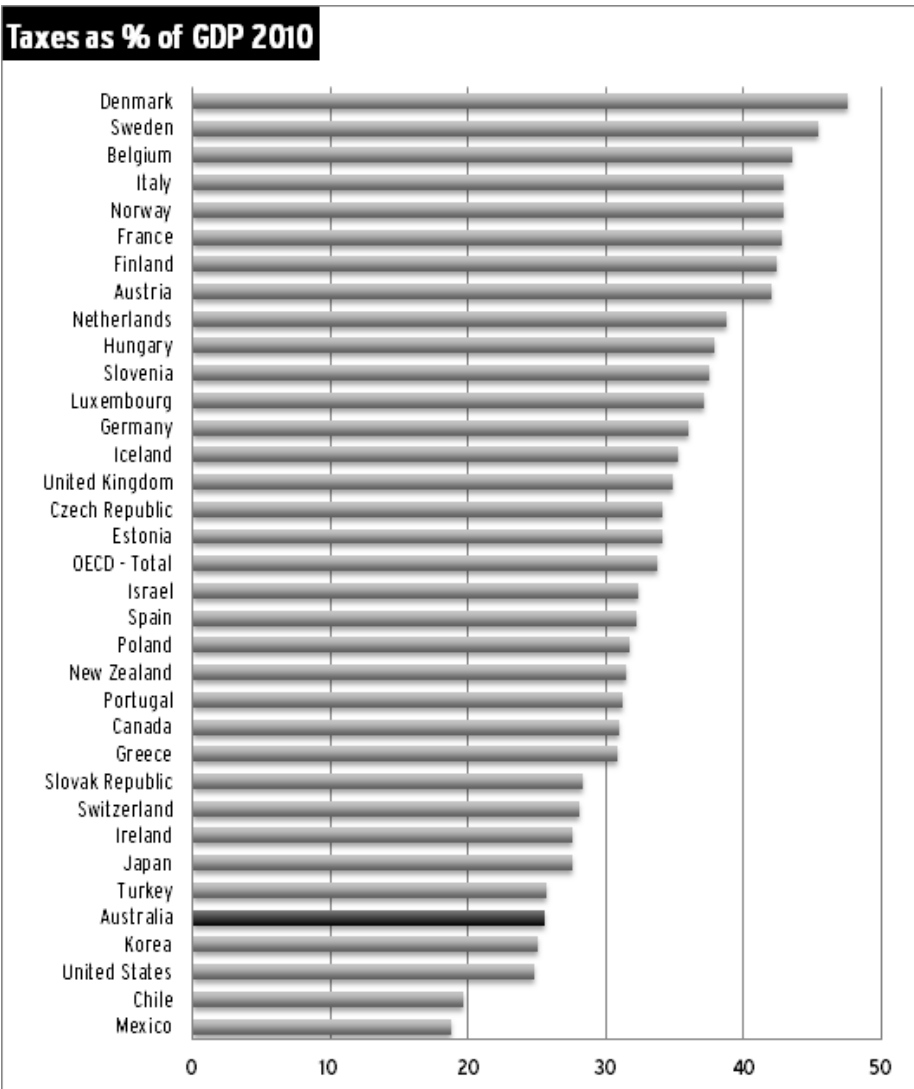
AUSTRALIA IS A LOW TAX COUNTRY

Australia's taxes are among the lowest in the developed world. The tax to GDP ratio is widely used to compare the tax take over time and with other countries. This ratio measures how much tax all levels of government receive relative to the size of the economy. In 2010, Australia's taxes were

approximately 26 per cent of GDP, compared with an OECD average of around 34 per cent. Out of the 34 OECD countries analysed, the only countries with lower tax to GDP ratios were:

- Korea (with a very young population)
- The United States (which has a massive structural deficit and many non-tax burdens like private health insurance and pricey college loans. The cost of paying for private health insurance in the U.S. is roughly equivalent to a 17 per cent payroll tax on large firms.)
- Developing countries Mexico and Chile.

Figure 1



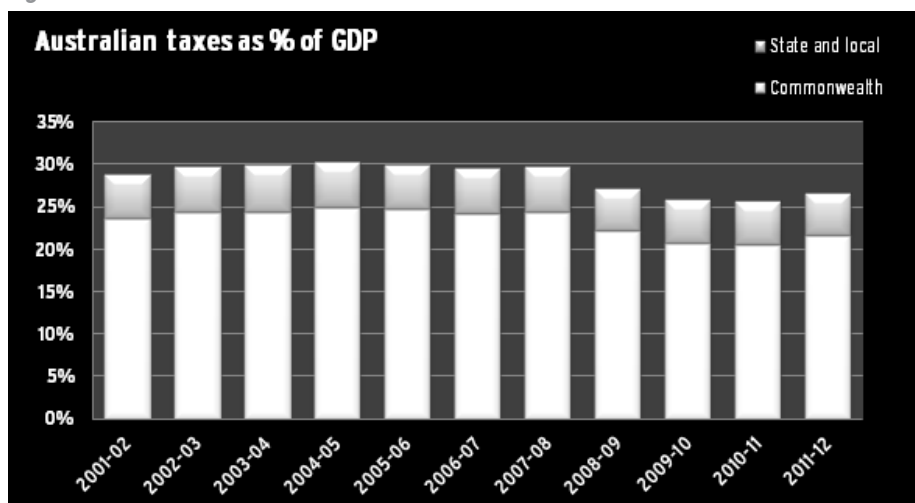
Source: OECD

Arguably, spending is a better measure of the size of government than revenue given that many governments are running long-term deficits. Again, Australia has a low proportion of government spending to GDP compared to other developed nations. In 2012 our spending to GDP ratio was around 35 per cent, compared to an OECD average of around 43 per cent.

Labor has been a low tax government

Commonwealth tax revenues have collapsed during Labor's time in government, and not only because of the tax cuts they took to the 2007 election. The automatic stabilisers kicked in as the Global Financial Crisis hit, with revenue falling as company profits declined and unemployment increased. Unfortunately revenue failed to recover as growth resumed. The Australian dollar became a 'safe haven' currency thanks to the mining boom and our overall economic strength. This contributed to low inflation, which meant that while real GDP growth was strong, 'nominal GDP' was growing more slowly than expected, lowering the tax take. Mining companies made big investments and wrote them off against their tax bills. Then, as commodity prices began to fall, so did company profits, cutting tax revenue again. If the tax to GDP ratio had been the same as that enjoyed by the Howard government in its final budget, the May 2013 budget would have been in surplus.

Figure 2



Source: ABS

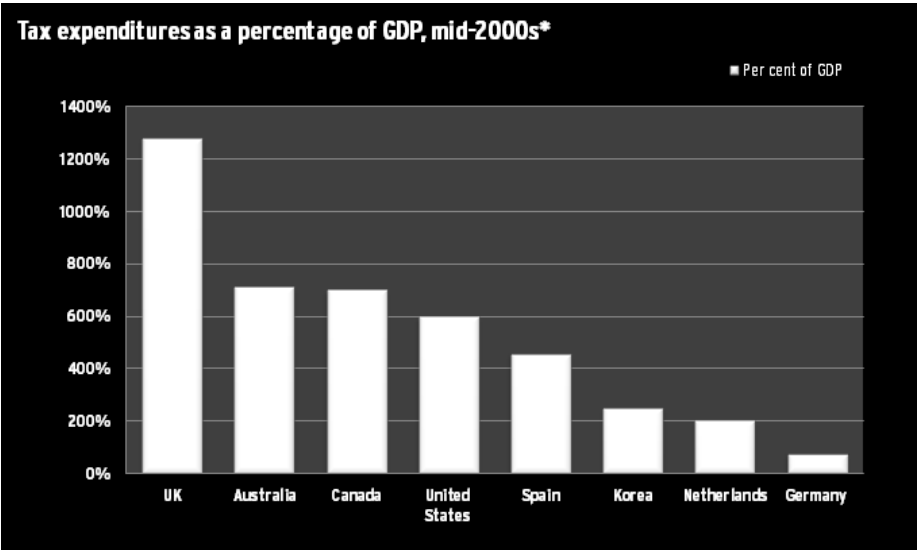
A LOW TAX COUNTRY WITH LARGE TAX LOOPHOLES

As well as a highly targeted welfare state and the reluctance of our governments to raise taxes, Australia's low tax status is partly attributable to generous tax breaks. Tax expenditures, a technical term Treasury and the OECD use to describe revenue forgone because of tax breaks and rebates, effectively subsidise certain private services and benefit particular groups of taxpayers. Distinct from general tax cuts because of their selective benefits, the fiscal

impact of tax expenditures on the budget is similar to the impact of direct public spending. In some cases one is directly substituted for the other: for example, the childcare tax rebate can be received either as a tax break or as an upfront subsidy. Tax expenditures cost \$111 billion of revenue forgone in 2011-12 – 7.6 per cent of GDP.

Different countries account for tax expenditures in different ways, which makes comparing them difficult, but there is some evidence to suggest that Australia forgoes more revenue on tax expenditures than many other OECD countries. In fact, Australia was found to be second only to the United Kingdom in a recent OECD report on tax expenditures as a percentage of GDP (see *Figure 3*). Notably, the report found that Australia's tax expenditures reduce revenue even more than in the United States, a country known to have extensive tax loopholes. The growth of tax expenditures has also contributed to the fall in the tax to GDP ratio.

Figure 3



* Data for Australia is from 2006, the most common year that data was collected for other countries

Source: compiled by authors; Treasury (2007) and OECD (2012)

Many tax expenditures are unfair in their design, offering the most benefit to higher income-earners who are in a position to spend more on the services they subsidise – such as childcare and private health insurance. In 2009 just over 30 per cent of people on incomes of \$20,000 a year had private health insurance, whereas more than 80 per cent of people on incomes over \$80,000 had private cover.⁴⁸ Tax concessions for assets, such as those for capital gains and superannuation, benefit wealthier individuals with real estate, super and shares. Overall, tax breaks tend to benefit higher income earners the most because they pay higher tax rates, hold larger assets and purchase more private services. Reforming tax expenditures could improve the budget bottom line while making our tax system fairer and simpler.

Not so super: the unfair tax breaks that are breaking the budget

The superannuation tax concessions are expensive and highly inequitable. Tax concessions apply to super contributions, super investment earnings and super benefits. In 2011-12, the Treasury estimated the super tax concessions at over \$30 billion of revenue forgone.⁴⁹ Second only to the housing tax expenditures in scale, these concessions were projected to become the largest category in 2012-13 and balloon out to almost \$45 billion by 2015-16.⁵⁰

Table 1

Who benefits from the superannuation tax concessions? Effective tax rates					
Income Range (\$)	Marginal Tax Rate	Tax Paid on Super Contributions	Tax Discount on Super Contributions	Tax Discount from 15% flat rate tax on fund earnings	Tax Discount from Exemption on Super Benefits
0-18,200	0.0	0.0	0.0	0.0	0.0
18,201-37,000	19.0	4.0	15.0	4.0	19.0
37,001-80,000	32.5	15.0	17.5	17.5	32.5
80,001-180,000	37.0	15.0	22.0	22.0	37.0
180,000-300,000	45.0	15.0	30.0	30.0	45.0
300,001+	45.0	30.0	15.0	30.0	45.0

Source: compiled from Treasury website

Despite recent reforms, the super tax concessions remain unfair. Before the Gillard government introduced the rebate for super contributions by those earning up to \$37,000 per year, these low-income earners actually paid higher average tax rates on their super than on their other income. However, they still get a raw deal compared to high-income earners. Analysis undertaken by the Treasury⁵¹ showed that in 2012 the top ten per cent of income earners received almost a third of the benefits from the super tax concessions, more than the bottom 60 per cent of income earners combined.

The problem remains, despite the 2012 reduction of concessions on contributions made by people on incomes over \$300,000 a year, and the 2013 introduction of a 15 per cent tax on earnings over \$100,000 a year. These changes are the equivalent of a paper cut when open-heart surgery is needed. It is therefore most unfortunate that the Labor government followed these minor tweaks with the announcement of a five-year freeze on any major changes to the tax treatment of superannuation.⁵²

Tax and public opinion

There's no shortage of politicians, business lobbyists and commentators lining up to promote a low-tax culture. As Ken Henry has commented, 'it is curious that in Australia, when you ask people what they mean by tax reform, if you dig down they think reform means tax cuts'.⁵³ These voices often benefit from

sympathetic or uncritical coverage of their views in Australia's highly concentrated media sector.⁵⁴ Any government would have found the carbon price and mining tax difficult to promote in the face of well-funded and influential opposition, but flawed communication and timing on Labor's part made matters worse.

The debate over changes to superannuation tax breaks illustrates the flaws in the Labor government's approach to the politics of tax reform. In its early days in office, the Rudd government commissioned then Treasury Secretary Ken Henry assisted by an expert panel to conduct the most sweeping review of the tax and transfer system in 35 years. One of the Review's many recommendations was to replace the current concessions on superannuation contributions with a flat-rate offset.⁵⁵ If the Review's recommendations had been implemented the system would still have been skewed towards high-income earners, but much less so than at present.⁵⁶

However, instead of launching a public conversation about the merits of a fairer system that could leave most Australians better off, in 2010 the Rudd government began by ignoring the Henry Review's advice that compulsory super contributions should be left at 9 per cent and announced an increase to 12 per cent, with no major change to the concessions. The first version of the mining tax was to cover the cost of losing more revenue to superannuation tax breaks. Even if the tax hadn't been watered down, this probably would have been a bad idea: mining tax revenue was always going to be extremely lumpy, while the cost of the super tax concessions is constant and growing. On the other hand, cutting the tax on contributions made by low-income earners to zero was a welcome development.⁵⁷

In 2012 the Gillard government boosted the tax on contributions made by people earning over \$300,000 to 30 per cent – affecting a little over 1 per cent of Australians.⁵⁸ Later that year rumours that further changes in the tax treatment of super were likely began to circulate, but Labor sidestepped questions on its plans in the lead up to the 2013 budget. This allowed wild speculation about possible changes to emerge. Sitting Labor members like Martin Ferguson described the taxation of super as 'class warfare'.⁵⁹ The minimal changes eventually announced in the 2013 budget are likely to raise around \$250 million a year.⁶⁰ The subsequent announcement of a five-year freeze on further changes served to reinforce the impression that Labor's minor tweaks had been a major mistake.

It's hard to imagine a tax reform pathway less likely to win public support. Yet the mining tax, the 'carbon tax', the bank levy and other changes have all been subject to similar levels of political mismanagement.

Another of the Henry Review's major recommendations was to replace the inefficient system of royalty payments for Australia's mineral resources with a 40 per cent tax levied on profits above a threshold 'normal' rate of return. The Rudd government responded with the ill-fated (and badly named) Resource Super Profits Tax (RSPT). The Coalition and mining industry ran a very successful scare campaign attacking the tax. Just months before the 2010 federal election, large mining corporations effectively threatened a capital strike. The perceived poor handling of the tax is often cited as the catalyst for Kevin Rudd's resignation. It's certainly true that he failed to either make an effective public case for the tax or to manage the response of business groups that had previously supported the idea in principle.⁶¹

After the 2010 election Julia Gillard's minority Labor government replaced the RSPT with the watered-down (and more sensibly named) Minerals Resource Rent Tax (MRRT). From July 2012 the MRRT levied a lower tax rate (30%) on the profits of coal and iron projects only, with other major industry concessions (the effective tax rate of the MRRT is actually 22.5% due to extraction allowances). This tax has made extremely limited contributions to Commonwealth revenue due to its redesign and falling commodity prices.

In Labor's second term, the tax debate was dominated by the 'carbon tax' on Australia's 500 largest polluters (technically not a tax but an emissions trading scheme with an initial fixed-price phase). This innovative reform, however, was not even designed to be revenue neutral. In an attempt to reduce the reform's unpopularity the government built in generous over-compensation. Again, Labor's policy framework was vulnerable to changes in industry pricing – the international carbon trading markets had been affected both by the global economic downturn and a European trading scheme undermined by the successful lobbying efforts of major polluters.

Tax Resistance

The visibility of Labor's tax reforms – increased by an aggressive campaign by the Opposition and industry – has contributed to public perceptions of taxation that have become disconnected from reality. The Per Capita Tax Survey of 2012 found that 57 per cent of Australians believe that Australia is a 'high-taxing, big government country' compared to other wealthy countries. In the highest and lowest income brackets, this view was even more prevalent, with 65 per cent of respondents believing Australia was a high tax country.⁶²

Figure 4

Perceptions of rising taxes out-of-step with revenue losses after 2007

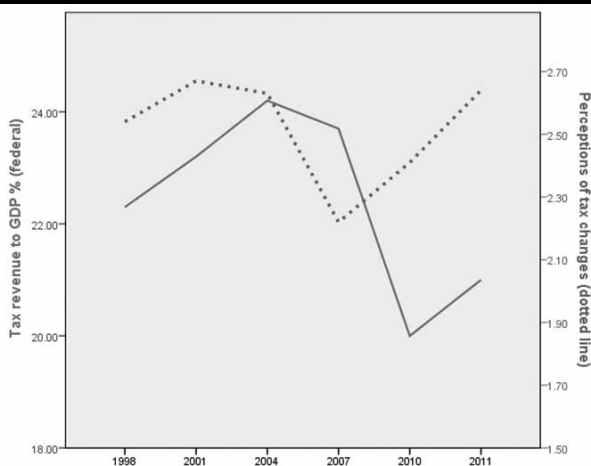


Figure 4 shows how out-of-step public opinion has become with the revenue collected by the Commonwealth government. The figure charts the federal tax-to-GDP ratio between 1998 and 2011 and a corresponding measure of perceptions of tax changes.⁶³ Growing perceptions of tax increases had generally corresponded to rising tax revenues

collected by the Coalition between 1998 and 2004. Between 2004 and 2007, as the Howard government's income tax cuts reduced the tax to GDP share, perceptions of tax rises moderated.

But something remarkable happened after 2007 – revenues under Labor collapsed but perceptions returned to an upward trend, with more Australians believing that taxes were rising. This continued into 2011 as debate over the carbon price intensified. Labor's high-profile but low-revenue mining tax and carbon price had the effect of strengthening 'tax resistance' and heightened perceptions of tax rises. For a centre-left government, this represented a policy headache: the government had paid a political price for tax reform without raising revenue to fund its ambitious social welfare and infrastructure programs. The tax cuts and spending funded by the carbon price were progressive in nature, but Labor did not receive any credit for this. Out of Australia's nine million households, eight million received some compensation for the impact of the carbon price, six million were to be fully compensated and four million were to be overcompensated.⁶⁴ Yet half of the respondents to Per Capita's tax survey said that they had received no compensation.⁶⁵

Raising taxes without losing elections - what's the secret?

Tax resistance is near universal, but so is the desire for governments to do good things. Despite the fate of the carbon price and mining tax, there's reason to believe that Australians would be willing to pay more for the services we say we want. There's plenty of evidence that most Australians expect our government to act more like a European social democracy:

- Most Australians think Australia is less unequal than it is, and we'd like it to be more equal still. Asked to choose between a society in which the top fifth of households have 61 per cent of the wealth and the bottom fifth have 1 per cent, and a society in which the richest have 24 per cent and the poorest have 15 per cent, most Australians choose the latter. The former is Australia's actual wealth distribution.⁶⁶
- When asked whether we agree that "income and wealth should be redistributed towards ordinary working people" 73 per cent of us say yes – this has risen from 57 per cent in the 80s.⁶⁷
- Two-thirds of people who think they pay too much tax also say that governments should spend more on public services.⁶⁸

The perennial question for politicians is how to trigger the least resistance to raising enough money to fund the services we say we want.

Countries that rely more on income and property taxes have more tax resistant politics, suggesting that tax visibility creates tax resistance.⁶⁹ Arguably the reason that perceptions of taxation have become unhinged from reality in Australia is that much of the decline in revenue is from the GST and company tax – both of which are less visible to voters. There is a longstanding argument that the politically sustainable way to increase tax revenues is to increase consumption taxes. Unfortunately, while they may be less visible, consumption taxes fall disproportionately on people with low incomes. When the United Kingdom, New Zealand and Canada shifted the balance of taxation towards consumption much of the extra money was given away in tax cuts to the rich, making the shift doubly regressive.⁷⁰

Trust that governments will spend money well is also a crucial factor. In the two decades *before* the 2007 election Australians slowly shifted away from

preferring 'less tax' and towards 'spending more on social services': in 2007 the preference for more social spending had reached 58 per cent. This dropped back down to 47 per cent in 2010 (a change in the question's wording may have exaggerated the decrease). A big jump in the number answering 'it depends' in 2010 may reflect negative publicity surrounding the stimulus package, particularly the school building and home insulation programs.⁷¹

The trust factor helps explain why dedicating revenue from a specific tax to a specific policy – hypothecation – is popular with the public, who like the idea of knowing exactly where their money is going. A recent example of this is the well-received increase to the Medicare levy to help pay for DisabilityCare. The direct line from hip pocket to public service is often unpopular with economists and Treasuries, as it can make for more complex tax systems and unwieldy budget processes. But it is nevertheless a good idea to time tax increases that make sense to coincide with related spending increases that also make sense. Imagine, for example, if the pension increase in the 2009 budget had been fully funded through the reductions in super tax concessions in the 2012 and 2013 budgets,⁷² or the means-testing of the Private Health Insurance rebate had been announced as a measure to help fund Labor's increased spending on hospitals. A future government might wish to link increased funding for transport infrastructure to the restoration of fuel tax indexation.⁷³ Even support for the hugely controversial 'carbon tax' depends on how the issue is framed. When asked in 2011 what the government should do if the economy weakened, 61 per cent of respondents to an Essential Media poll supported a carbon tax to support middle and low income personal tax cuts, versus 51 per cent who favoured cuts with no offsetting carbon tax.⁷⁴

FAST FACTS:

increasing tax needn't hurt economic competitiveness

Just as the size of public debt matters far less for economic growth than what that debt is used to fund, the size of a country's tax take makes much less difference to an economy than how well those taxes are spent. Countries like Sweden and Denmark, whose taxes are over 45 per cent of GDP, compete successfully because their public services are well-designed and delivered. Economist Peter Lindert took a comprehensive look at rise of the welfare state from the eighteenth century onwards. He found that in practice there is no relationship between the levels of social spending and the rate of economic growth.⁷⁷ The design of the tax system (discussed below) also makes a difference. This helps explain why, as the Centre for Policy Development's Fred Argy put it: 'it is hard to find a significant statistical correlation between size of government...and economic performance', or in Ken Henry's words, 'the optimal size of government is not a question that can be answered by a technical economic analysis'.

The Labor government's experience with tax reform over its past two terms demonstrates the high political and economic cost of short-termism.⁷⁵ Overcompensating for reforms put holes in the budget without neutralising

opposition. Front-loading spending increases while postponing the tax increases needed to fund them undermined the opportunity for Australia to have a mature conversation about tax. As Ken Henry suggested at the 2012 tax forum that the Independents and Greens demanded: 'If you have the big bold idea and the community does not have a sufficient understanding of why it's necessary then you've got Buckley's hope'.⁷⁶

STUMPING UP FOR IT - BASIC INGREDIENTS OF A GOOD TAX SYSTEM

Designing a good tax system is hard, and designing a good system that receives long-term public support is even harder. There are many criteria by which the quality of a particular tax reform can be judged: very few meet all the criteria. One reform may distort consumers' or investors' decisions less but also make the system less fair, another may make the system fairer but more complex and therefore harder to explain and administer. Rather than putting forward a blueprint for tax reform, the authors of this chapter would like to highlight a few areas where the adequacy, fairness, and efficiency of Australia's tax system is falling short and could be improved.

The Henry Tax Review in brief

The Henry Review's findings provide an excellent starting point for building a tax system that is fair, efficient and adequate. The Review proposed some sound design principles for a tax system that:

- Creates a robust revenue base for dealing with future demographic challenges
- Favours long-term productive investment rather than speculation on property or shares
- Is strongly committed to fairness

The Henry Review rightly criticised the complexity of Australia's tax system, pointing out that we have too many taxes that collect too little revenue. It proposed that revenue should be raised from four 'robust and efficient' bases:

- 'personal income, assessed on a more comprehensive basis;
- business income, designed to support economic growth;
- rents on natural resources and land; and
- private consumption.'⁷⁸

Many of the suggestions of the Review are valuable, particularly the need for simplification, for reforming superannuation and capital gains tax concessions, re-indexing fuel tax to inflation, reviewing the private health insurance rebate, and the smart idea of increasing the resource rents paid by mining companies that deplete Australia's mineral assets.

In other areas the Review panel may have placed too much emphasis on economic efficiency at the expense of fairness and adequacy. The recommendation for a 5 per cent reduction in company tax may be premature when Australia is yet to have a mature debate on whether we're raising enough tax overall. Also,

any reforms that are economically efficient but regressive should be treated with caution while inequality is growing and the rise of ‘class war’ rhetoric is making redistribution outside the tax system increasingly challenging.

Facing up to the reality triangle - we need to pay more tax

Australia’s tax system does not currently collect enough revenue to pay for the high-quality services we rightly expect of a developed country. At a minimum, Australia needs more tax to:

- Eliminate the structural deficit created by earlier tax cuts and increases to the aged pension
- Fully fund the Gonski reforms and the National Disability Insurance Scheme
- Cover the costs of increasing demands for services and a shrinking income tax base as the population ages.

We should also consider expanding our tax base further to fund other measures that could make Australia a better and fairer place to live over the long term – such as increased investment in education, training, research, and infrastructure, a more generous paid parental leave scheme, higher Newstart payments, expanded social and affordable housing, a dental care equivalent to Medicare, and restoration of our rivers, soils and reefs.

Obviously, we should keep an eye out for opportunities to improve the efficiency and effectiveness of public spending. In Chapter 3 Jennifer Doggett looks at ways to manage our health costs better, and in Chapter 5 Roy Green outlines measures for improving productivity growth that should be applied to Australia’s public sector. However, given Australia’s high quality of life, low-tax status and targeted welfare system, it seems highly unlikely that spending cuts alone could free up enough resources to cover current and future spending needs without significantly undermining our quality of life. There just isn’t that much fat to cut.

Low-tax advocates may think with nostalgia of the years before the Whitlam government significantly increased public spending.⁷⁹ It’s worth remembering that before Whitlam, Australia had no Medicare, no public funding for private schools, a much smaller proportion of people going to university, and, if you lived in some suburbs, no sewerage. A mature conversation about tax would dismiss such skewed comparisons. Instead it would begin by looking at the revenue needed to support the society we’d like to live in, and the benefits and disadvantages of different options for collecting that revenue.

MAKING IT FAIR

Most Australians are willing to accept some inequality, but we must make important decisions about how unequal we let our society become. In 2011 it took BHP CEO Marius Kloppers around 29 hours to make \$57,400 - the median annual income for a full time worker in Australia.⁸⁰ How much should his tax rates differ from those of a typical worker? Inequality compounds across generations – children who grow up in more unequal countries are less likely to escape the income bracket they were born into.⁸¹ Redistribution of income through the tax-transfer system is one way to reduce inequality, along with a fair wages system and strong investment in education and training for those with less bargaining power in the employment market.

One standard measure of inequality is the ‘Gini coefficient’. Applied to income, a country in which the richest person earns all the income and everyone else earns nothing would have a Gini coefficient of 1, while everyone would have the same income in a country with a coefficient of zero. Australia’s Gini coefficient for household income after taxes and transfers (adjusted for household size) was above the OECD average in 2010, but below that of US and the UK. By this measure Australia has become more unequal since the mid 90s – the Gini coefficient grew from 0.301 in 1996 to 0.336 in 2008, declining slightly since then to 0.334.⁸²

Australia’s inequality is growing for a number of reasons, and our tax system is now doing a lot less to reduce inequality than it did in recent decades.⁸³ Over the past seven years, the top 10 per cent of income earners received 42 per cent of the gains from the income tax cuts introduced by the Howard and Rudd governments between 2005-06 and 2008-09. The extra \$71 billion taken home by the top ten per cent was more than the total received by the bottom 80 per cent, who received a combined total of \$63 billion.⁸⁴

In the process of growing Australia’s tax revenue to a sustainable level, we should also make the overall tax system more progressive.

What would a more efficient tax system look like?

When most of us think of improving efficiency, we think of getting a better outcome with the same effort, or the same outcome with less effort. Economists call that *technical* efficiency.

A technically efficient system makes it easier for people to pay their tax and may reduce resistance to paying taxes. On the government side it appears that the efficiency of our system is about average for the OECD – the administrative budget of the Australian Taxation Office is a little over 1% of tax collected.⁸⁵ However, the complexity of our tax code imposes costs throughout the community which are much more difficult to measure, such as legal and accounting costs and the time of professionals and tradespeople to tax matters. The Labor government’s attempt to raise extra revenue by requiring companies to file pay-as-you-go tax installments monthly instead of quarterly may have been a bad move on this front - increasing compliance costs for little gain.⁸⁶ Despite some improvements, such as rolling the low-income tax offset into a higher tax-free threshold, Australia’s tax system is still far too complex.

Economists also pay a lot of attention to the *allocative* efficiency of a system: how it impacts on the allocation of resources.⁸⁷ A narrow perspective is that a tax system that was completely allocatively efficient would have zero impact on pricing, investment or consumption decisions. A broader perspective might view an allocatively efficient tax system as one that impacts on decisions in ways that reflect society’s values. For example, high taxes on tobacco have a deliberate impact on consumption – reflecting the belief that it would be a good thing if tobacco use, and the associated health impacts, were lower.

The Henry Review panel’s take on allocative efficiency was influenced by the idea that in a globalised world governments should raise *more* revenue from sources that are hardest to shift overseas and *less* revenue from more mobile sources. This helps explain the proposal to increase resource rents and cut company tax to 25 per cent (since iron ore and coal are immobile, but investment

isn't). While the Review's terms of reference ruled out changes to the GST, the Business Council of Australia⁸⁸ and others have used the same logic to support the idea of paying for income and company tax cuts by increasing the GST and land taxes. Despite widespread support for the idea, there are two main concerns about the way the implementation of this principle may work out in practice:

- **Revenue adequacy:** Given the urgent need to increase tax revenue, it's hard to make a case that either income or company tax cuts should be a priority at present. Any support for such changes should be contingent on sufficient 'base broadening' to ensure that the changes are revenue positive. Unfortunately, in reality, support for tax cuts tends to outweigh and outlast support for measures to broaden the tax base by removing loopholes or exemptions. The Business Tax Working Group, unsurprisingly, found a lot of support for a business tax cut amongst the businesses it spoke to, and very little support for funding such a cut through base-broadening.⁸⁹
- **Fairness:** A major OECD report concluded that 'shifting the tax mix to less-distorting taxes – in particular away from labour towards consumption – would improve incentives to work and save, but raise inequality'.⁹⁰ Progressive supporters of such a shift often argue that the impact of higher consumption taxes on low-income earners can be addressed by increasing transfer payments, or raising the tax-free threshold further, as with Labor's 'carbon tax' compensation package. At a minimum, there should be a strong public commitment to reversing the recent growth of inequality in Australia before such a move is considered.

Recent debates on company tax rates have overlooked a few key points:

- As The Australia Institute's David Richardson has pointed out, Australia's system of dividend imputation means that 'as far as the individual (Australian) shareholder is concerned, holding a share in an Australian company and receiving the imputation credits is equivalent to the hypothetical situation in which the company pays no tax'.⁹¹
- This means that the company tax rate primarily affects overseas shareholders, leaving the potential impact on levels of foreign investment as the main argument in support of a lower rate. However, in Canada repeated company tax cuts have not been accompanied by an increase in investment.⁹² And because we have agreements with many countries to avoid double-taxation, lowering our company tax rate could end up benefiting the Treasuries of other countries with higher rates, like the United States.⁹³

IDEAS WE NEED NOW: PRIORITIES FOR REFORM

Perhaps the most important priority is to reconnect public debate on tax reform with a realistic understanding of the trade-offs involved in paying for high-quality public services. Politicians unwilling to raise taxes should be clear and honest about the long-term implications for public services and abandon the race to the bottom on tax-to-GDP ratios.

There are a few smart things Australia could do soon to increase revenue, make our system more progressive, and remove some particularly unfair and expensive distortions. Eliminating structural deficits isn't a very inspiring goal around which to mobilise community support, and it would make sense to go

beyond this and raise enough revenue to fund some of the more transformative changes outlined elsewhere in this book. Where possible, tax increases that make sense should be timed to coincide with related spending increases that make sense – as long as this does not lead to overcompensation or unnecessary complexity. In contrast to the response to the Henry Review, it would be good to see a coherent set of reforms explained and introduced as a package.

Cut back on tax concessions

Reforms to Australia's 'hidden welfare state' of tax breaks and rebates deserve special attention. Many of Australia's tax breaks are inefficient, unfair, and increasingly costly. The following reforms should be considered:

- Abolish the Private Health Insurance Rebate. As outlined in Chapter 5, the rebate currently costs around \$5.6 billion a year. It subsidises those who can afford it to jump to the front of the queue for access to scarce specialists, without removing pressure on public hospitals.
- Replace tax concessions on super contributions with a government-funded co-contribution skewed towards low and middle-income earners⁹⁴ and restore income tax on super fund earnings paid to those over 60.
- Restore Capital Gains Tax indexation and remove the 50 per cent Capital Gains Tax discount. This would have the advantage of encouraging long-term 'patient' investment while removing the incentive for more speculative investment that was created when the 'Ralph reforms' replaced indexation with a 50 per cent discount.⁹⁵ As one OECD report put it: 'reduced taxation for capital gains from the sale of a principal or secondary residence...often distorts resource allocation without boosting aggregate savings and growth, and benefits mainly high-income groups.'⁹⁶
- Restrict negative gearing to new homes.⁹⁷
- Link receipt of the Child Care Tax Rebate to government-funded community places for childcare.
- Restore indexation of the fuel excise, which could raise up to \$5 billion a year for road, rail and bus projects.⁹⁸

Increase income tax at the top

Since the late 1970s, the share of income earned by the top 1 per cent in Australia has almost doubled, from 5 per cent to 9 per cent.⁹⁹ While there has been growth at the top, the next 4% of income earners have had a relatively stable share of income. Capturing just a small percentage of this growth would add to the tax base and is unlikely to have much effect on the lifestyles of the very wealthy. On the political front, there's some evidence that centre-left governments don't get punished much for raising taxes on high-income earners.¹⁰⁰

As of 2010, around 99 per cent of taxpayers earned less than \$280,000 per year and 95 per cent earned less than \$140,000.¹⁰¹ John Quiggin has estimated that a 50 per cent marginal tax rate on incomes over \$150,000 would raise approximately 1 per cent of GDP, or nearly \$15 billion (three times the cost of the Gonski reforms).¹⁰² In 2012 Treasury estimated that the Greens' less ambitious recommendation of a 50 per cent rate on incomes over \$1 million would raise a little under \$800 million a year and affect around 8000 people.¹⁰³

Bring back an inheritance tax

The abolition of inheritance taxes in Australia during the 1970s has enabled rich families to concentrate assets across generations. An inheritance tax is an easy way for members of society to contribute to the ‘common wealth’ that they have benefitted from over their lifetimes. It has the advantage of not being paid until someone is dead, so it’s not surprising that economists regard it as a highly efficient, non-distorting tax!¹⁰⁴ While heirs would still receive a large share of the wealth, an inheritance tax would go some way towards reducing inequality of wealth and opportunity.

The Henry Review did not make a recommendation on inheritance taxes, but did note that the revenue from an inheritance tax would rise as Australia’s population ages – bequests are predicted to grow from \$22 billion in 2010 to \$85 billion in 2030. This would be a very useful feature given the rising costs associated with an ageing population.

A tax on inheritances over \$5 million would affect around one per cent of households - 90,000 or so. If family homes and farms were excluded it would affect fewer still.

A mining tax that makes more money

There are several good reasons to require mining companies to pay a higher price for Australia’s resources than we do at present, but one that rarely gets a mention is intergenerational equity. Depletion of Australia’s mineral assets is a one-time thing. We owe it to ourselves to raise enough revenue in the process to make the kind of investments in infrastructure and education that can sustain our prosperity far into the future.

The failure of the Mineral Resources Rent Tax (MRRT) to raise its expected revenue has been well documented. The key differences between the Rudd and Gillard mining tax schemes were a reduction in the headline tax rate from 40 per cent to 30 per cent (effectively 22.5 per cent due to extraction allowances) and a move from covering all minerals to only coal and iron ore. The Parliamentary Budget Office recently modeled the Greens’ proposal to lift the MRRT back to 40 per cent, and found that it would raise an extra \$4.8 billion a year by 2016-17.¹⁰⁵

While such a move would certainly be unpopular with the mining industry, it could receive public support – 29 per cent of voters think the tax should be amended to raise more money and 21 per cent think it should be maintained in its current form, versus 28 per cent who think the tax should be dumped.¹⁰⁶

CONCLUSION

Tax reform doesn’t provide politicians with photo opportunities. Holding up an excel spread sheet just doesn’t catch the imagination like wearing hard-hat and a flouro vest or sitting in a classroom reading to children. It’s hard to imagine an Australian Treasurer delivering a budget night speech as poetic as India’s former finance minister Pranab Mukherjee’s:

‘Our tax collectors are like honey bees, collecting nectar from the flowers without disturbing them, but spreading their pollen so that all flowers can thrive and bear fruit.’¹⁰⁷

The need for an adequate tax base rarely makes the front pages, but without it we can't fund schools or hospitals or ensure that those in need are taken care of. We need to collect more tax to fund the services that most Australians deeply value. Increased revenue will also have the benefit of reducing the temptation for governments to find expensive 'off-budget' ways to fund essential infrastructure, or to run long-term structural deficits.

As a society we need to face up to some hard choices that we have been putting off for too long. But we can also treat the need for tax reform as an opportunity to think more deeply about the things that make Australia a great place to live, and ways that we could join forces to make it better still.

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 - Over the long term, countries with higher average growth will find it easier to service higher debts than countries with lower average growth. Australia now has high average growth compared to most of the developed world.
 - Domestic debt (like Japan's) can be easier to service than foreign debt (like Greece's). In some countries government debt is not particularly high, but private debt to the rest of the world is high, and there's a risk that government will be called on to bail out the country's finance sector. Spain, where banks and other financial institutions have over-invested in housing, falls into that category. Australia has to be aware of this risk, because we have fairly high private foreign debt, fuelled by a speculative boom in housing and equities in the years leading up to 2008. The recent introduction of the bank levy to fund the Commonwealth government's deposit guarantee is a smart move in this context.
 - Given our long-term underinvestment in public infrastructure, Australia should probably be worrying more about our lack of productive assets than the size of our debt. It's hard to imagine a household with a good income allowing rising damp and a leaking roof to destroy its house rather than borrowing to make repairs. Because governments can borrow at cheaper rates than companies, Australian's will get better value for money by funding the assets we need through public debt than through private investment.

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CHAPTER TWO

Getting past Gonski: every child deserves a good school



by Chris Bonnor and Jane Caro

INTRODUCTION

For many young people the end of the year signals the end of twelve years as a school student. Nervously they log on to access their results, with their families hovering, waiting to know what sort of story they will hear from their offspring, and what they can tell anyone who asks. The media also wants to know about the year's results and name the top schools in the HSC, VCE or equivalent. But it is hardly news, because it is almost always such a predictable list of schools: the ones at or near the top are usually those more able to choose their students. Around two-thirds of student achievement is derived not from

schools and teachers, but from the advantage or disadvantage that students bring to education.

This chapter uses publicly available data to show that this concentration of advantaged kids in some schools and disadvantaged kids in others is leaving the less advantaged with fewer role models, diminished opportunities and inevitably poorer school results. The increasing social and academic separation of our students is impacting on student engagement, retention and achievement. Common solutions point to the need to reform school policy and practice. This chapter focuses instead on the socio-educational status (SES) impact of the school, not to deny the need for reform but because the regressive impact of school disadvantage is getting worse. If we are serious about raising the achievement of all students, then glossing over the impact of advantage and disadvantage in a school's population creates a very big policy vacuum.

We've known about the impact of school disadvantage for a long time. There is a very close tie between test scores on the My School website and its Index of Community Socio-Educational Advantage (ICSEA).¹ As Bernie Shepherd demonstrates, NAPLAN scores (national literacy and numeracy testing across years 3, 5, 7 and 9) are usually high for schools that enrol socially and academically advantaged students and low for those schools at the other end of the scale.² There is also an obvious link between student advantage and other school achievement measures, such as the Higher School Certificate (HSC) and the Victorian Certificate of Education (VCE).

Separating students compounds both advantage and disadvantage. Australia now has fifty seven per cent of disadvantaged students attending disadvantaged schools. This is large compared with other OECD countries.³ The vast majority of these are government schools. This chapter demonstrates the extent of the problem, then considers how it affects student achievement and why existing policy isn't working.

There is hope in greater community awareness of the problem, but little evidence that the policies on offer ahead of the 2013 election will make a sufficient difference. In relying on our odd mix of schools to deliver achievement for all students we've been pushing our luck. There are clear signals that our luck is running out.

FAST FACTS: measuring advantage

Relative advantage is measured by the socio-educational and socio-economic status of family and school.⁴ The Index of Community Socio-Educational Advantage (ICSEA) used on the My School website, includes such things as the educational achievements and occupations of parents, while socio-economic status measures wealth and social resources. However, both show us that relative advantage or privilege affects student outcomes. While there are clear links between socio-economic status and school achievement, this chapter focuses on socio-educational status (hereafter SES).⁵ The way students are distributed around different schools lies behind much of our growing equity and quality problems. We are particularly pooling advantaged students with their peers.

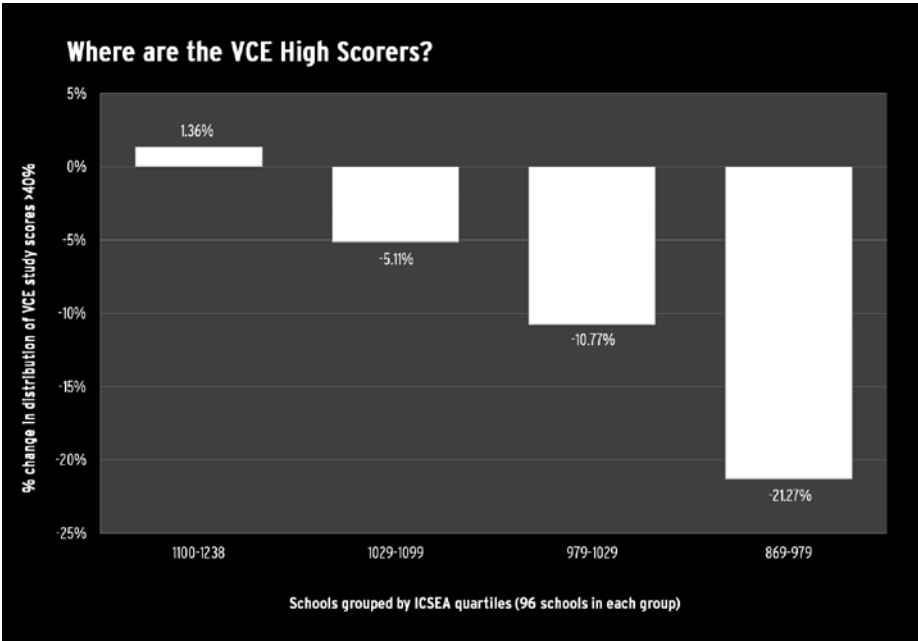
CREATING A SCHOOL DIVIDE

Evidence of our divided school system is within the reach of every Australian – not just by walking around their neighbourhood and looking at the state of local schools – but in the data available on the My School website and elsewhere. My School is of limited use in comparing schools – the purpose for which it was designed – but it tells many stories about the difference between groups of schools.

One of those stories is that higher achieving students are increasingly less likely to be found in low SES schools. In past decades the local comprehensive school had been able to make a headline or two out of its high achieving students. Today, not so much. What has happened? We can find out by taking a closer look at Victoria where available data shows the changing distribution of high-end academic results, represented by VCE study scores over forty.⁶

There are 384 schools with enrolled student numbers of more than 250 in Victoria that had students sitting for the VCE in 2003 and in 2011, a span of eight years. Additional schools opened and a handful closed over this time.⁷ As Figure 1 shows, only the highest ICSEA schools, the ones with the most advantaged students, increased their percentage of high scores. The percentage of high scores in the other groups of schools fell away as the measured advantage of their enrolled students also declined. The percentage of high VCE scores in the most disadvantaged schools, already low in 2003, fell the most.

Figure 1



* Applies only to schools with over 250 students and which existed in both years

Source: My School 3.0 and

<http://www.theage.com.au/national/education/compare-school-scores>

When measured, year-by-year across almost 400 schools, such changes are incremental - but they are certainly noticeable and consistent over eight years. How can we explain the significant loss of high scores in schools with more low ICSEA students in just eight years?

Explanation 1: School Quality

Some claim it is due to the quality of the school. Hence credit or blame is apportioned to teachers and principals, sometimes followed by a mix of carrot and stick policies to lift performance. But how is it that schools serving more disadvantaged students have not been able to sustain or increase previous levels of high VCE study scores? Clearly this is not just about school and teacher quality, unless – as is hardly likely – all the teachers and leaders of those schools have somehow collectively dropped the ball and become less successful.

Explanation 2: School sector

Some prefer to point to who owns and manages the school, for example by attributing perceived underperformance to government schools alone. But the handful of low-SES private schools have also tended to fall behind in the VCE stakes. Government schools lost more, but there are more government schools in the lower ICSEA ranges. They are the only schools obliged to enrol all students, regardless of family background and level of prior achievement. As My School shows, even in poor communities the more advantaged students aren't usually found in government schools.

Explanation 3: Student Movement

What we do know is that the more advantaged students have tended to shift out of schools dealing with higher levels of disadvantage. The shift to non-government schools is well known, and well illustrated in research completed by Barbara Preston⁸ – but also evident is the shift of enrolments from lower to higher SES government schools.⁹ My School shows that high-disadvantage schools with Year 12 students in Victoria are twenty per cent smaller than high-advantage schools. Similar trends are evident in New South Wales over a longer period of time. For years we have known that student movement has residualised low SES schools, increasing their density of disadvantaged students¹⁰ - it is hardly surprising that test scores such as NAPLAN, VCE or HSC are continuing to reveal the impact of this movement.

A closer analysis of school achievement scores certainly shows up exceptions: there are disadvantaged schools where students have achieved against the odds and highly advantaged schools which don't seem to have lifted their achievement much at all. Some exceptions may be explained by variations in school quality. In other cases school location is important. Between 2003 and 2011 a significant number of rural schools in Victoria showed an increase in percentage of high VCE scores, but these were mainly located some distance from competing schools. They may be good schools, but they also had the rare advantage that their high-achieving students couldn't go elsewhere. This phenomenon is quite common in parts of rural Australia¹¹ where many schools have escaped the claimed benefits of school competition.

The Impacts

Lists of winners or losers in this competition don't tell us much about school quality, but the enrolment shifts do reveal a lot about the changing character of schools. The winners are larger schools with relatively more privileged students. They commonly include fewer Indigenous students and fewer students in the lowest ICSEA quartile. Their NAPLAN scores are unsurprisingly higher and their students have a higher school attendance rate. The distribution of Indigenous students is particularly revealing: Indigenous families are concentrated in some areas more than others, but there is an even stronger tendency for them to be concentrated in some schools more than others.

The pattern revealed by the changing distribution of high VCE scores is replicated in relation to the NSW HSC.¹² But such patterns are hardly going to be limited to just two States, so what is the likely scale of declining student achievement across Australia? There are 2270 schools in Australia with students enrolled to Year 12. Just under half of these schools, 1084 schools enrolling a total of 668 000 students, have an ICSEA value below the average of 1000. 13.9 per cent of their students are Indigenous. In Victoria two thirds of the schools below this average ICSEA have experienced a decline in the proportion of high Year 12 scores.

If this is replicated across Australia, over 400 000 students attending around 700 secondary schools are similarly placed, struggling to achieve in increasingly marginalised schools. Many of these students begin school already far behind. They may sit in classrooms devoid of the student role models found in the schools of their parents' era. In worrying numbers they drift away from school before the end of Year 12. Their teachers are overwhelmingly committed but inexperienced and staff turnover is high. Their schools are usually close to the bottom of any achievement rank, and often cop criticism or, at best, pious but ineffectual handwringing. Their communities have lost much of the cultural capital essential to the future success of their children.

REVERSING THE TREND

The case for trying to reverse such trends is not hard to devise. It goes to the problems we create when we shift cultural capital out of some schools and communities and move it into others, and to the lost connections between schools and their families. Few people seem able to justify the extent to which we separate students on social, ethnic and religious grounds. The economic case for policies that might reduce achievement gaps and lift school retention rates is well-established.¹³

In the search for education policies that might reverse this trend we need to look closer at why enrolments have shifted from low to high SES schools and how the process of marginalisation affects the students who are left behind.

School choice: what lies beneath

The decision to change a student's school is the subject of endless talk about relative school quality and the apparent downsides of enrolling in one over another. But such conversations are only meaningful for those with certain advantages. Choice is available only to those able to pay school fees, move house, pass a number of tests, access the networks and/or press the required buttons.

The vision of school choice for all, with every family able to consult a website, weigh up the options and jump through the required hoops is far from reality.

Beliefs about the value of school competition still underpin policy, despite ongoing evidence that it makes little difference to school quality.¹⁴ This old gospel seems to exist in some parallel universe: its believers don't seem to have noticed the decline in Australia's relative performance, the growing gap between high and low achievers, and the intractable problems faced by marginalised schools over the three decades in which it has held sway.

What drives school choice for those who have it? Research that looks at what parents do shows that the two drivers are, in order, the social profile of the school, and the achievement level of its students.¹⁵ The two are obviously linked but taken together help explain the enrolment drift to higher SES schools.

Impacts on schools and students

We know much about why enrolment shifts but how it impacts on schools is more complex. According to the Australian Council for Educational Research's report on PISA 2009:

*'Regardless of their own socioeconomic background, students attending schools in which the average socioeconomic background is high tend to perform better than if they are enrolled in a school with below average socioeconomic intake.'*¹⁶

Key research in NSW shows how the advantage level of schools can lift or depress individual student achievement.¹⁷ This work has been replicated in Victoria.¹⁸ The evidence was carefully explained in the research carried out by the Nous Group for the Gonski review and noted by the review panel.¹⁹

Students who are engaged and capable bring prior learning, family education, networks and know-how to their school. As Richard Teese and Stephen Lamb commented in their submission to the Gonski review, the variation between schools is due:

*'not simply to the individual characteristics of students, nor even to the pooled characteristics of students, but to the multiplication of individual and pooled advantages through specialist resources, student management practices and high levels of funding...'*²⁰

In effect, students themselves can be substantial resources for any school. Although important, the number of teachers and the levels of funding per student do not by themselves explain the achievement difference between schools.

Such differences are strongly influenced by the way the critical resource of engaged and aspirant students ends up being distributed. School principals know this, and research shows that when schools are put in competition with each other, they respond by doing what they can to attract the students who will give them a competitive edge. Contrary to the claims made by advocates for competition, they don't primarily respond by improving their teaching and learning.²¹

A PROBLEM THAT DEFIES...

The growing disparity between Australia's schools is a story about opportunities lost and young lives wasted. The gap in learning between the top and bottom 25 per cent of students by socio-economic background is around three years – greater than most other high achieving OECD countries.²² In reading, the gap between the highest 10 per cent of students and the lowest 10 per cent in Australia is equivalent to over six years of schooling at age 15.

A Productivity Commission report in November 2011 found that:

*'Among students from low-SES backgrounds, around 25 per cent do not reach proficient levels of reading, mathematics or scientific literacy at age 15 (compared with 5 per cent from high-SES backgrounds). Around 40 per cent do not reach year 12 or attain equivalent vocational qualifications (compared with 20 per cent from high SES backgrounds).'*²³

An investigation of school completion rates in Victoria in 2012 by the State's Auditor-General found that the proportion of 19-year-olds completing Year 12 or equivalent in Victoria had plateaued, with a widening gap between low/medium and high advantage areas.²⁴

It is hard to understand how problems that have been so comprehensively reported could get worse despite the policy rhetoric about solutions, but as long as our school system continues to compound disadvantage, it will handicap efforts aimed at improving student achievement across the board. It is a problem that will cost us all dearly until it is solved, and the people who will pay the highest price will continue to be our most vulnerable and disadvantaged children.

... AND SOLUTIONS THAT DON'T WORK

Policy about schools seems to be driven by three things: how we see the role of schools and school education, how we define the problems we believe should be solved and, last but not least, the extent to which policies will resonate with the voting public.

Professor Alan Reid argues that we view schools as having three purposes.²⁵ The first is a public purpose, in a society that expects its schools to prepare young people to be active and competent participants in democratic life. The second is a private purpose that sees education as a commodity, aiming to advantage the individual in social and economic life. The third is an economic purpose, preparing young people as competent economic contributors.

We shape and deliver these purposes in the way we provide schools, through the curriculum and in what we value in schooling, but we rarely seem to achieve a balance. In particular, we haven't resolved the conflict between education as a good for the whole community and as a private and positional good. On the contrary, we have set up schools in ways that pitch these two aspirations against one another.

Nothing illustrates this better than the My School website, a symbol of neoliberal commitment to competition in schooling. It was supposed to inform choice by making more information available, enabling accurate comparisons between schools and making schools more accountable to school systems, parents and the community.

The reality has been quite different: the information has always been incomplete, the measures of school success far too narrow and fine comparisons between individual schools misleading. There is no evidence that it has driven improvement of schools. In fact it defies almost all the evidence about good practice in accountability and school improvement. Ironically the website is an excellent resource for parents who choose schools based on social criteria; everything you need is there on the first page for each school.

AUTONOMY WON'T HELP

The push to make schools more autonomous is another popular policy direction with overstated benefits and the potential to further widen the gaps between schools.²⁶ The Programme for International Student Assessment (PISA) has said that local management of schools tends to be associated with better school-system performance.²⁷ However, PISA doesn't show any significant link between autonomy and student achievement in Australia.²⁸ Perhaps parents, who are often claimed to welcome autonomy, know this: polling shows that they don't rank school autonomy as a priority.²⁹

Years of exhaustive research into locally-managed charter schools in the United States found they are little different to mainstream public schools.³⁰ A 2013 report into autonomous academies being rolled out in England notes they need to be more open in enrolment, half require improvement in teaching and learning and that greater cooperation between schools is the key to improvement.³¹

Carefully managed autonomy can support school-level innovation in teaching and learning, and there is evidence that greater school control over curriculum, assessment and reporting is useful.³² But control over these is not being offered to schools. Our moves towards autonomy appear designed to accentuate unproductive competition between schools, further ensuring that the best resources, especially quality teachers and engaged students, are unevenly distributed. If every school chooses all its own teachers the most experienced will gravitate to the schools with attractive locations, student populations perceived as easier to teach and higher salaries. Some government schools are likely to join their private counterparts in applying both overt and covert enrolment discriminators, worsening complex equity problems.

What about other initiatives? The Building the Education Revolution did provide substantial capital improvements to schools, but there was no equity or even school enrolment criteria involved and as a result, long term needs remain unmet. The Digital Education Revolution increased the use of computers in schools, but won't be sustained and the move to have students 'bring your own device' to school will, yet again, penalise those from the poorest backgrounds. There have been many excellent programs introduced under National Partnerships, but continuity now relies on Gonski-related funding.

Other problems continue. Evidence for such initiatives as performance pay and reward funding for schools was so thin that they quietly disappeared in the May 2013 budget. The development of an Australian curriculum has large elements of a solution in search of a problem. Welcome progress has been made in teacher accreditation, but experienced teachers are still not located where the need is greatest. What all these policy initiatives do have in common is their electoral appeal.

A SHIFTING DEBATE

The last few years have seen increasing debate about the achievement of students and the worsening gaps between high and low achievers that are regularly revealed by the OECD. As the problem has increased, so the evidence about the fundamental causes has become harder to avoid.

This hasn't stopped some from trying. Much of the school reform agenda has been dominated by a school-only approach. Both sides of politics, along with some think-tanks and private funders, are reluctant to accept that the problems created by widening differences between schools must also be solved. There is a difficult narrative to counter without seeming to create excuses for schools. School principals and teachers can and always should make a difference, but the odds are clearly stacked against some more than others.

But the debate has shifted in the last couple of years. Report after report indicates the economic and social benefits that will accrue when school outcomes are raised and the gap is narrowed.

While it dragged its heels for some time, the Labor Government eventually established the Gonski review, initiating a process that was lengthy, thorough and inclusive. Its many recommendations were substantially backed by research, supported by school lobby groups, most mainstream commentators and media. In effect the review process has shifted public opinion towards the idea that resources for schools should be directed to where they are needed most.³³

One key finding of the Gonski panel is confirmed by the research mentioned in this chapter:

*'Increased concentration of disadvantaged students in certain schools is having a significant impact on educational outcomes, particularly, but not only, in the government sector. Concentrations of students from low socioeconomic backgrounds and Indigenous students have the most significant impact'*³⁴

THE POLICY HORIZON: PUSHING OUR LUCK

Election campaigns don't lend themselves to informed debates about equity or the policies which could provide opportunities for all our students. The Gonski review initially seemed to create consensus on what is needed but various players soon reshaped Gonski around their own priorities. Labor's Better Schools Plan, which is based on the Gonski review, is an improvement on the existing system, and it's certainly good news that the majority of states and the Catholic sector have now signed up to it. However, the policy response to the strong evidence presented by the review is still far too timid.

Labor's position

Labor's commitment to equity is not as convincing as it sounds. For much of 2012 the government didn't engage in the Gonski debate, leaving a void for the critics to fill. Then last August we were told that it was all about school reform to create world class education and beat Shanghai into the bargain – equity was hardly mentioned. Uncertainty about winners and losers and the amount of money involved has dominated the debate. Some in the government would be happy to campaign on equity, others run for cover at any suggestion of 'class warfare'.

The Labor Party doesn't have a coherent narrative about equity and meaningful reform in schooling.

Like its predecessors the Labor government is wedded to notions of competition in schooling and is unwilling to fix Australia's failing hybrid framework of schools. Its interminable focus on school reform has been an attempt to tweak this framework, while deflecting attention from its worst features. Even the Gonski review was initially hijacked to serve this purpose: pitched as part of the government's reform bandwagon, while in reality the review's findings amount to a substantial critique of previous policies.

Like the Coalition, Labor wanted to have it both ways on equity. Gonski was told from the start that no school was to lose funding – a strange instruction for a review that was supposed to address equity. Later in 2012, Prime Minister Gillard went further to say that all schools would gain. If implemented, the 'no losers – everyone gains' assurances would deliver funding increases to schools that need it least.³⁵

This was confirmed when funding amounts were revealed in April 2013. Schools that bleed others of their remaining talent will still get more. Struggling schools will too, but the gaps will not narrow for years, not least because the initial funding increases fall well short of Gonski's recommendations – and the money will initially just trickle out.

It is hard to believe that the extra funding will be sustained in tightening fiscal circumstances – unless some of the tax increases recommended in Chapter 1 are taken up. And improving equity by redistributing resources remains a political bridge too far, particularly for a Labor Party spooked by the ghost of Mark Latham and his hit list of wealthy schools – despite analysis which shows it was probably an electoral plus in 2004.³⁶

The Coalition's position

Tony Abbott is at best lukewarm about the reforms arising out of the Gonski review. After promising to drop the changes in the absence of an agreement with the states, his recent public conversion to what he called a 'unity ticket' on the issue was a belated move in the right direction. However, the Coalition is only pledging to match Labor's funding increase for the next four years, so it is still \$7 billion short of Labor's longer-term promise.³⁷

Given that its partial adoption of Labor's policy was clearly made under duress, it's worth asking where a full-blooded, take-no-prisoners conservative Coalition would go. The first option has been given a work-out: attack management stumbles, matters of trivia and raise the inevitable cry of 'where is the money coming from'. Hence 'school halls' are synonymous with 'pink batts' and the politics of distraction reigns.

The second option is best characterised as 'me-too but much better'. Hence the school autonomy agenda is nudged further along to allow government schools to become far more independent, aided by moves in WA, QLD and to an extent in NSW.³⁸ Shadow Education Minister Christopher Pyne has focused on teacher quality, training and ongoing professional development – all quite laudable.³⁹

But the Coalition has a particular problem with the Gonski review and the Government's Better Schools Plan. Its official statements have been brief and often confusing. In *Real Solutions for all Australians* the Coalition states:

*'We will continue current levels of funding for schools, indexed to deal with real increases in costs and we will ensure that money is targeted based on the social and economic status of the community.'*⁴⁰

It is no mean achievement to commit to contradictory policies in just one sentence. Other pronouncements reinforce the confusion, especially as more states sign up to reforms based on the Gonski review. Tony Abbott has denied the need for funding reform, although he has progressively given ground as the election looms – while avoiding details.⁴¹ All while they ignore the dysfunctional Commonwealth-State divide which has dogged education funding for decades.

In effect the Coalition is too close to the private school lobby and has never really grasped the broad scope of the Gonski review. In the past Christopher Pyne has claimed that 'there isn't actually an issue in Australian schools that revolves around equity',⁴² and that 'the greatest determinant of the outcome of students is the parental involvement in their children's lives at school'. To give away the source of his inspiration he concludes that this is why 'in the non-government school systems students tend to perform better'.⁴³

Tony Abbott's comments also reflect a rusted-on commitment to private schools, announcing that funding them is 'in our DNA'. He has also stumbled over equity, in effect defining it as a proportional share of funding based on enrolment numbers.⁴⁴

They don't get it: schools don't get a share of funding in proportion to their enrolment and never will. We don't have two comparable systems with equal calls on funding. What we have is a government system with schools that must be available for all kids, and various private schools which are conditionally available to some kids, if they can meet the required enrolment criteria, primarily the payment of unregulated fees. The public funding needs of these two groups of schools are very different.

Based on its form in 2007 and 2010 the Opposition could well dig deeper into tried and failed policies from overseas. Their commitment to school autonomy can easily morph into charter schools, currently heading for New Zealand.⁴⁵ A previously proposed education card is a voucher by another name. Tax rebates and/or tax deductibility can easily be extended to school fees. There will always be some policy surprises, if only to appease the more noisy private school peak groups.

The problem with the policies in the conservative kit bag is that few of them really seem to work without worsening equity. This won't stop them; they don't get equity. In the words of Joe Hockey, the alternative Treasurer: 'I don't know what Gonski looks like, what the whole education plan looks like...'⁴⁶ Hardly surprising, then, that the Coalition can't join the dots between improved equity, student progress and economic growth.

IDEAS WE NEED NOW

The real need is to cut through the noise of political debate and come up with priorities that can make a difference within our loose framework of schools. And a framework is all we have, one in which schools operate under varying regulations, obligations and accountabilities - an uneven playing field with many

of the players unwilling to agree to tighter and fairer rules, even when clearly designed to improve the game for all. Achieving real change requires using both incentives and disincentives, with success reliant on winning over the various school lobbies and interest groups – and gaining a sufficient groundswell of popular support for change. The Gonski review substantially delivered this and will long remain a benchmark against which future policies will be assessed.

Achieving real change also requires a commitment to the required investment – not easy when fiscal cuts and caution reigns. Too quickly we forget that funding schools is an investment. Improved achievement and school completion, including amongst disadvantaged students, pays dividends. Without this we just incur higher costs through unemployment, lower lifetime earnings, lower productivity, less taxation revenue, higher health care and crime costs, and higher welfare expenditure.

The cries about the cost of better schools are often accompanied by the claim that money doesn't make a difference to student outcomes. But research that might support such claims is narrow, dated and challenged.⁴⁷ Money certainly does matter, and various studies show the benefit of greater investment in disadvantaged students.⁴⁸ One study found that the effect of raising school expenditure on low-income students is about three times as high as for the average student.⁴⁹ It certainly matters how the money is spent and what else changes: schools must be evidence-driven and accountable in their decisions about how they invest additional Gonski funds.

Priority 1: Include the marginalised

The first priority is to start reversing the marginalisation of less advantaged schools. Gonski didn't directly suggest how to do this – but the effect of its recommendations, if properly implemented, should achieve this over time. The inclusion of funding loadings should increase funding to schools where concentration of disadvantage is greatest. In effect we could achieve a situation in which there would no longer be a public funding reward for schools enrolling students who are already achieving at high levels.

Stronger support for struggling schools, combined with increasing evidence of their success, could convince aspirant and advantaged families, along with all others, to see that their local school is as good as any other. Improving the mix of students in each school in this way is critical to the success of other interventions. My School may already be delivering this – at least in privileged areas. Government schools in Sydney's high-income North Shore are now so full the State Government has committed to opening a new public primary and public high school in the area for the first time in 40 years.

The Government's 'everyone wins' approach won't see this happen across the board without massive and sustained funding increases – unlikely with the funding falling well short of recommendations, spread far too thinly across too many schools ... and too late. At some stage in the future the penny will drop: the only alternative is to boost opportunities for disadvantaged students by directing funding away from schools where the achievement profile, combined with the capacity of parents to pay fees, indicates a lesser need to call on public support. In other words, reshape the Gonski recommendations to remove any

'no loser' guarantee. Some polling certainly suggests that this would receive widespread support.⁵⁰

Some might decry this as social engineering but it would simply be reversing the regressive engineering we engaged in when Gough Whitlam first subsidised fee-charging schools without any commensurate change in their obligations. And it didn't work: we hollowed out disadvantaged schools and demonstrably failed to raise student achievement and create quality for all. We subsidise students to go elsewhere to school and then face the much greater cost of teaching the ones left behind.

Priority 2: Innovative schooling

While this chapter has focused on external impacts on schools the effectiveness of practice inside schools remains critical to their success. One-third of student achievement is still derived from what schools do, and there is ample scope to do it better – and in many cases differently. Gonski talked about the need for a whole-of-school culture that embraces innovation and change - problem solving, creative and critical thinking and collaboration. Wise investment in school improvement will help this happen. The Gonski review suggested that 500 000 students currently leave school without the skills and knowledge needed to participate effectively in a globalised society. Too many students are switching off school.

Schools must be supported to innovate and improve the areas over which they have direct control, including organisation of teaching and learning, teacher development, leadership, student support and links with families. The reality is that in most classrooms, more of the same teaching and learning that is then measured via harder and more frequent testing, might sound good - but it won't pick up the young people we are leaving behind. There are innovative ways of reaching out to disengaged learners but they involve shifting the internal organisation of schools away from production line learning to personalised learning. The problem is that sustaining authentic and proven innovation in schools is difficult - and often beyond the resources of schools to provide, particularly, those schools with the most urgent need.

Two examples of effective innovation illustrate the problem and suggest solutions. The first is Hands On Learning,⁵¹ a program in some Victorian government secondary schools, which takes students out of class for one day each week and into the charge of two artisan-teachers with a substantial mentoring role. The students operate in small groups, creating and completing projects in school and the community. A variety of students are involved and the immediate return is in their increased motivation to do well at school. It has costs – but a report on the program completed by Deloitte shows that it is an investment on which the long-term return is substantial.⁵²

The second example is Big Picture learning,⁵³ now found in three dozen mainly government schools across Australia. Its longer internships are closely linked with each student's interests and these are developed into a learning plan undertaken at school. The Big Picture model is centred on groups of 15 students who have one teacher/advisor over the final four years of secondary school – a radical departure from conventional schooling. It is particularly successful at creating links between students, teachers, parents and mentors – in effect one student at

a time in a community of learners. It works with a wide variety of students and it works in ways that are being researched and noted across Australia.

Such programs are funded by both school authorities and the philanthropic sector. Their success is not only measured in improved school attendance and retention but in reducing downstream costs such as unemployment and physical and mental health issues. Such programs represent a stark policy choice: we invest now in these students or we face much higher social and economic costs later on.

CONCLUSION

The evidence gathered for this chapter reveals insights and poses challenges:

- Closing the achievement gap between schools is now more urgent than ever.
- Analysis shows that disadvantaged students are falling even further behind, not least because they are being increasingly pooled together in poor schools.
- Around 400,000 Australian secondary students are now in marginalised secondary schools.
- For too long political leaders have ignored all the reasons why this is happening and our policies for schools seem to be making the situation worse.
- The Gonski review shifted the debate and created considerable hope but neither Government nor Opposition will take all the bold steps necessary for equity and opportunity.
- Funding schools based on need must see some supported far more than others, and all schools must be supported to re-engage the students we are rapidly losing.

It is our choice: we can push our luck with more policies that won't make a difference and pay the much higher cost later on; or we can invest now in the policies that pay a dividend for all our young people. Kids at school now will never get those years back.

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CHAPTER THREE

Getting better: Prescriptions for an ailing health system



by Jennifer Doggett

INTRODUCTION

On its election in 2007, the Labor Government's plans for reforming the health system were as ambitious as a star of 'Grand Designs'. Kevin Rudd pledged an extra \$2 billion over four years to go towards improving the efficacy of the hospital system and vowed to end the bickering between state and federal governments over their funding.¹ But seven years on, the reform agenda is looking more like a case of 'Renovation Rescue'. Early plans for a total transformation of the current system have been shelved in favour of a more superficial face-lift, tacked onto an increasingly unfit and deteriorating structure.

The warning signs of these underlying structural problems are clear. Despite the recent significant increases in Government funding for health, inefficient and inequitable funding systems means that the cost of health care to the consumer has actually been rising and many Australians still face cost and geographic barriers to accessing the care they need. Fragmentation between different sectors of the health system and archaic workforce structures make it difficult to provide the coordinated and multi-disciplinary care needed to address the rising rates of chronic disease. An overall lack of accountability results in unacceptably high rates of medical errors and inconsistent quality of care across the health system.

While construction is still underway, it's too early to know how successful the reform measures will be in addressing these issues. While there are some indicators of progress, there are also warning signs that any gains achieved via the reforms will be undermined unless the underlying structural flaws are addressed. By examining the early stages of these reform measures, we can identify some key gaps in our current approach, and see how a stronger focus on consumer engagement and preventative care, fundamental changes to our funding system and a broadening of the focus on health to include social determinants will help us rebuild the foundations for a healthcare system that's equipped to meet the health care needs of Australians for generations to come.

THE PROBLEM: OUR HEALTH SYSTEM WAS A RENOVATOR'S DELIGHT

Labor's 2007 election plan to radically reform the health system reform was long overdue. Australia's health system had been designed for the health care needs of a different era. When Medicare was introduced a generation ago, our health care needs were primarily for the treatment of short-term and discrete illnesses. These needs could be largely met by GPs working independently and a local hospital for more serious needs. Today, our greatest health care need is for the prevention and management of chronic (long-term) diseases and multiple co-existing conditions. Chronic disease is estimated to make up just over 70 per cent of the current total burden of disease with a predicted increase to 80 per cent by 2020.² Combatting this requires ongoing, coordinated care, often from a number of providers who may work at different locations and in different sectors of the health system. The health system inherited by Labor was not equipped, in terms of its structure, governance, funding mechanisms and workforce practices, to provide this type of care.

As a result, consumers are finding it harder to obtain the type of care they need to maximise their wellbeing. It is time consuming and expensive for many individuals to navigate the different sectors of the health system to locate the specific mix of services they require. Many people miss out on the care they need or receive services too late to prevent serious problems from developing.

Despite our claims to a 'universal' health system, access to health care is not equal across our community. Many groups experience barriers to accessing health care and as a result have higher rates of illness and disability. People in remote areas and people with social and economic disadvantages are also more likely to experience health problems and have higher disease risk factors.³ Payment systems create barriers to access for many consumers, often those

most in need of care. According to the ABS 2009 Patient Experience Survey, cost is a significant barrier to receiving health treatments. In 2009, 1.1 million Australians delayed seeing a GP or did not see a GP because of the cost and almost one in ten of those surveyed delayed or did not buy medication they had been prescribed.⁴

The 'health gap' between those most and least advantaged in our society is a significant equity issue, both in itself and because poor health compounds existing inequities, such as access to education and employment, leading to a less equal society overall. In particular, the gap in life expectancy between indigenous and non-indigenous Australians, of 11.5 years for males and 9.7 years for females, is a major issue that needs to be addressed.⁵

At a systemic level, Australia has been spending more and more on health care. As a proportion of all spending on goods and services, health spending has increased from 7.9 per cent to 9.4 per cent over the decade to 2010.⁶ This is not a problem in itself – as our wealth increases it makes sense to spend more on health care, which can help us enjoy the other benefits of our affluence. However, we are failing to ensure that this money is allocated efficiently. We are over-using some of the most expensive forms of care (hospitals) and under-using some of the most cost-effective (high quality primary care). As a result, we continue to experience high levels of preventable hospital admissions, resulting in increased costs to the hospital system and also to the community more generally through lost productivity. Potentially preventable admissions such as these represent a considerable cost to the health system: a University of Canberra report has found that just 60,000 avoidable short hospital stays cost the government an average of \$2.3 billion.⁷ As a point of comparison, total public hospital funding in 2010-11 was \$37 billion.⁸

Compared with other industries, there is scarcely any accountability across the whole health service (with the exception of professional conduct). Complex funding and service delivery mechanisms within the health system mean that assigning responsibility for performance can be difficult and many areas of health care lack an agreed measure of the expected outcomes. It's hard to imagine that a brand of car which failed at a significantly higher rate than average would continue to be sold – for example, Volkswagen recently recalled 30 000 cars in Australia after reports from consumers of sudden reductions in the power. Yet every day consumers use medical devices, take drugs or undergo procedures which are known to have a higher-than-average failure rate and yet are still part of our health system.⁹ Transparency in the healthcare system relies on a shared understanding of the desired outcomes and accurate data with which to measure performance. Australia currently has neither. With limited comparative and consistent data on performance outcomes and little consumer input into defining what the outcomes are, it is difficult to assess the Australian healthcare system as a whole, which leaves patients without an effective way to compare service providers.¹⁰ Given the level of public investment in health care and the importance of this sector to people's wellbeing it is extraordinary that providers have so little accountability to the community, both as individual patients and tax payers.

The lack of coordination between the hospital and community and aged care sectors is a major issue.¹¹ Problems at the interface between the community

and hospital sectors result in gaps and duplication of services, adverse events and high levels of consumer frustration. According to a recent Commonwealth Fund Survey, 36 per cent of adults with a chronic condition in Australia reported experiencing gaps in the coordination of their care and 19 per cent reported experiencing a medical, medication or lab test error over the past two years.¹²

The continual bickering between the Commonwealth and the States and Territories over health funding has distracted both levels of government from focussing on improving the quality of care. This has resulted in high numbers of preventable adverse events and inconsistencies in the quality of care provided. Accurate data on adverse events in the Australian health system is out of date: no comprehensive national study on this issue has been conducted since 1995. However, the 1995 study was used to estimate the impact of adverse events in today's health system, finding that it is equivalent to a jumbo-jet full of passengers crashing every two weeks.¹³

At the primary care level, we rely too much on GPs to provide primary care services without involving other professionals, such as practice nurses and allied health care professionals. This is partly due to our Medicare fee-for-service payment system, which pays doctors for seeing patients rather than for managing their health condition. This system does not support effective population health planning, preventive health or chronic disease management. As a result, patients experience poor care coordination and often miss out on key services. Up-front payments create barriers to access and can steer them towards less cost-effective treatment options. The lack of an integrated population health or preventive focus has led to a rise in preventable and poorly managed chronic illnesses, which are placing an unsustainable burden on our hospital system. It also creates barriers for consumers in accessing the information, support and treatment they require to prevent or manage their conditions and maximise their health and wellbeing.

Despite the rising rate of chronic and preventable diseases in our community, Australia spends only 3.1 per cent of its total health budget on prevention.¹⁴ Prevention is not integrated into mainstream health care and exists as isolated strategies targeting a narrow set of risk behaviours (such as smoking or alcohol misuse). There is no integration of policies in other sectors, such as education, transport, industrial relations, taxation or the environment – with preventive health policies to build enabling structures to support healthy lifestyles. There is also no systematic delivery of preventive care via the primary health care system, which is the most common point of contact with health care. This contributes to higher rates of lifestyle-related risk factors in Australia, and the preventable diseases that go with that. For example, the Australian obesity rate of 28.3 per cent is much higher than the OECD average, and the resulting health problems will lead to higher health costs in the future.¹⁵

THE REFORM PLAN

Labor recognised that these problems could not be addressed without major changes to the health system. After the 2007 election, the then Prime Minister Kevin Rudd established a new body, the National Health and Hospitals Reform Commission (NHHRC), to develop a comprehensive health reform plan. The

Federal Government based its reform agenda on the NHHRC reform plan, with some important changes.

For example, the reform agenda developed by the NHHRC aimed to move towards a national hospital system by establishing a uniform approach to hospital funding and clarifying the roles of the Federal and State and Territory governments in order to increase accountability and transparency. The original intention was for the Commonwealth to assume the main funding responsibility for hospitals but after this plan failed to gain support from the States, former Prime Minister Julia Gillard brokered a new agreement leaving the States with the majority of funding responsibility but increasing the Commonwealth's contribution.¹⁶ This watered-down arrangement gives the Commonwealth more influence over public hospitals but does not remove the potential for disputes over funding levels between jurisdictions.

Apart from the funding changes, the main reform measures in the hospital sector are the establishment of 136 Local Hospital Networks (LHN): geographical or specialist service networks of hospital services. LHNs have local governance, decentralised hospital management and aim to increase transparency and accountability.¹⁷ They are supposed to work with Medicare Locals to integrate care across the hospital and community and primary health sectors.

The other major hospitals initiative is the National Health Performance Authority (NHPA), an independent agency that monitors and reports on the performance of hospitals and other health services and organisations (including LHNs). The aim of the NHPA is to provide nationally consistent, locally relevant and comparable information about Australia's health system to inform consumers, stimulate and inform improvements and increase transparency and accountability.

The main focus of the primary care reform agenda has been the establishment of Medicare Locals (MLs). These locally-based primary health care organisations (which strangely have nothing to do with Medicare) have been charged with delivering the Government's primary care reforms, including broadening the focus of primary care from GPs to include other primary care providers, providing support for coordinated care, consulting with the community, undertaking a population health needs assessment and developing programs and services to target specific areas of need. The Government has also provided infrastructure funding for primary health care to establish multi-disciplinary centres (SuperClinics) and to enhance existing general practices.

The reform agenda places a strong focus on consumer and community engagement and this is highlighted by the development of a standard for consumer engagement by the Australian Council of Safety and Quality in Health Care. This Standard outlines the benefits of involving patients and carers in the planning and delivery of health care and provides a nationally consistent statement of the level of engagement that health service users are entitled to expect. Consumer engagement is a strong focus of both primary care and hospital-based reforms with the guidelines for MLs and LHNs requiring these bodies to work closely with their communities.

Prevention is also a key focus of the health reform agenda, which stresses the need for preventive health strategies to be integrated throughout the health system. The National Preventative Health Strategy provides a blueprint for

tackling the burden of chronic disease currently caused by obesity, tobacco, and excessive consumption of alcohol. This is supported by the Council of Australian Governments (COAG) National Partnership on Preventive Health and the National Health Care Agreement. At the primary health care level, MLs are required to take a planned, population health based approach and focus on preventing disease and promoting wellbeing in their communities.

As well as the reform measures outlined above, new money has been put into previously under-funded areas such as mental health and dental services. The Government has also established the National Disability Insurance Scheme.

GAPS IN THE REFORM AGENDA

Despite addressing many of the important problems with Australia's health system, the NHHRC plan and the Government's subsequent reform agenda has a number of significant gaps. These are outlined below.

Gap 1 - Lack of overall vision

While the Government has outlined aims and objectives for individual reform measures, there is a lack of overall vision for the reform agenda. There is no articulated long-term plan or 'roadmap' for how the health reforms will deliver a national health system with coherent governance. There is no charter or statement for citizens outlining what they are entitled to expect from our health care system. This makes it difficult to assess the overall performance of the reform agenda and for the users of health services to know whether or not the reform measures are delivering the outcomes they expect.

Gap 2- Consumer input

Despite one of the stated goals of health reform being to develop a more consumer-focused health system, the Government did not include a consumer representative among the 10 members of the NHHRC. This was an inexplicable omission on both policy and political grounds. It ignored one of the most significant changes to the health care landscape in the last two decades – the increased role of consumers in shaping health care. Throughout the health system, consumers now play a crucial role in developing and implementing health policies, programs and services. Their involvement is backed up by credible research which demonstrates that consumers make a unique and valuable input in the health sector and their contribution results in greater consumer satisfaction and increased performance. For example, the Consumers' Health Forum of Australia's report on the effects of consumer representatives on medical decisions and outcomes, showed a strong causal relationship between consumer advocates and more effective health policy. Benefits included: being able to quickly identify consumer issues and efficiently address these issues in policy and program design; influencing medial training programs; increasing consumer access to reports and information; and improving transparency.¹⁸

The problems created by the omission of a consumer representative from the NHHRC were compounded by the lack of comprehensive community consultation in the development of the reform agenda. While the NHHRC conducted some limited consultations with some consumers, there was no overall community

consultation process to determine the values and priorities of the community in relation to health care (unlike the health reform process led by the Romanow Commission in Canada).¹⁹ This was a missed opportunity to assess community support for a publicly funded universal health system and to develop an understanding of the principles which should underpin the health system. Without this understanding, the health reform agenda has progressed without a sound basis in the priorities and values of the Australian community and without embedding any methods for involving the community to inform policy making and resource allocation decisions in the health system.²⁰

An important symbolic issue is that the person appointed to chair the reform Commission was the Chief Medical Officer from a major private health insurance fund. Overall, the Commission was largely comprised of 'health insiders' who did not have the broad perspective necessary to develop a radical reform plan. They also lacked the economic expertise required to address the inefficiencies embedded in the current health system. A review by the Productivity Commission (as recommended by the Centre for Policy Development's John Menadue and Ian McAuley) would be more effective in addressing the entrenched professional and jurisdictional interests in the current health system structure.

Gap 3 - Co-payments

Co-payments are the direct payments made by consumers towards their health care. While co-payments do not represent the full cost of the health care provided, they can still require a substantial contribution. Co-payments are a significant component of health funding in Australia, representing over 18 per cent of total funding. By international standards, co-payments in our health system are high. In fact, according to a Commonwealth Fund survey of 11 OECD countries, Australians pay for a higher proportion of their health care costs through direct payments than in any other country, apart from the USA. There is evidence that the increasing number of Australians putting off a visit to their local GP is a direct result of the increasing costs in the co-payment system.²¹

Co-payments are currently implemented in an ad hoc manner across the health system with no overarching policy or coordination. The aim of co-payments is not clear and there is little evidence that they are reducing unnecessary demand for services. In reality, they create barriers to access for vulnerable groups and shift the burden of health care from the affluent and healthy to the sick and the poor, thus reducing the overall equity of our health system. For example, ABS statistics show that cost of treatment remains a significant barrier for many indigenous Australians.²²

Co-payments can also reduce the efficiency of health care as they steer people towards the lowest cost (at the point of service) form of care rather than the most cost-efficient. For example, the high up-front costs of dental care means that many dental problems go untreated. This leads to more serious problems later on, which may require expensive hospital treatment. Hospital admissions from dental conditions are the largest category of preventable acute hospital admissions, costing the health system \$223 million each year.²³ Another example is that consumers may opt for the in-hospital emergency treatment (at a greater overall cost to the government), as opposed to the specialist clinic just

because the upfront costs are cheaper for the consumer.²⁴ Unless co-payments are included within the health reform agenda, the up-front costs of accessing health care will continue to create barriers to accessing health care for many in the community and thus undermine the potential gains of the reform measures.

Gap 4 - Private health insurance

Private health insurance was explicitly omitted from the scope of the review for political reasons, as concerns about a threat to private health insurance subsidies could have led to a politicisation of the issue and risked de-railing the reform process. Politically this may have been a sensible decision but in policy terms it has reduced the scope of the reform measures. It means that although just over 50 per cent of the population hold private health insurance,²⁵ its potential role in key areas such as health promotion and chronic disease management is not addressed in the reform plan. It has also quarantined private health insurance from any evaluation of its performance or comparison with other alternative funding arrangements. This is despite economic research demonstrating that private health insurance is an inefficient and inequitable funding mechanism, which reinforces (and perhaps amplifies) existing inequalities by providing benefits disproportionately to the most affluent in society.²⁶ Those most in need of assistance to afford health care receive much lower levels of benefit from private health insurance, often because they cannot afford the premiums or the co-payments when accessing services. The reform agenda also fails to address the inefficiency of the uncapped public subsidy (estimated at \$5.6 billion for 2012-13)²⁷ going to private health insurance through premium rebates. Alternative options for using this funding to target those most in need of health care have not been examined by the reform process. In general, private health insurance has not lifted pressure on public hospitals, and it subsidises patients who can afford it to jump the queue to access scarce specialists. As such, private health insurance is compounding the problems of a system where health resources follow the wealthy, rather than those with the most need.

Gap 5 - Private health sector

Australia has a mixed public/private health system where the private sector receives substantial public funding²⁸ and plays a significant role in key areas, for example in the provision of elective surgery. The blended public/private system is endorsed by the NHHRC yet the role of the private sector within this system was not addressed. For example, private hospitals are currently in a position to cherry-pick the most profitable operations while leaving the hard jobs – including the vast majority of emergency care – to the public hospitals. The reform agenda ignores issues such as whether or not the private sector delivers value for money (and, if so, in what areas) and how it interfaces with the public system. This leaves a large sector of the health system untouched by the reform measures and thus disregards any potential gains from improving private sector performance.

Gap 6 - Social determinants

Another major gap in the reform agenda is the lack of consideration for social and other non-health issues which impact upon health. Research over many

years has highlighted the role that factors outside the healthcare system play in influencing health status. These are the 'social determinants' of health and include income level, gender equity, political empowerment, the social and physical environment, and employment status. These factors play a crucial role in influencing the health of a community and explain much of the unequal distribution of health in Australia. A 'social determinants' approach focuses on these underlying causes of health inequity, rather than specific behavioural issues.²⁹ This is essential in order to reduce the inequity in health status within our community and is vital if we are to reduce the health gap between Indigenous and non-Indigenous Australians. It is an approach endorsed by the World Health Organisation which in its recent report into this issue stated that:

*'Any serious effort to reduce health inequities will involve changing the distribution of power within society and global regions, empowering individuals and groups to represent strongly and effectively their needs and interests and, in so doing, to challenge and change the unfair and steeply graded distribution of social resources (the conditions for health) to which all, as citizens, have claims and rights.'*³⁰

PROGRESS TO DATE

There are some positive signs that the reforms are making a difference in important areas of need. However, challenges are arising due to a range of factors, including the gaps in the reform agenda identified above, political issues (in particular changes of government at the state level) and pressures being exerted by interest groups to protect their sectional interests. The way these issues are affecting specific reform areas is discussed below.

Hospitals

The changes in hospital funding have given the Commonwealth more direct responsibility for public hospitals. If the Federal Government can use the lever of increased Commonwealth funding to reduce the incentives for cost-shifting and funding disputes this will result in a more efficient system. Engagement with the states is critical to making the hospital reforms work. If there is continual conflict between State and Federal governments and politicisation of the reform process, it will be difficult to get an agreement on funding that improves the current situation. Ongoing political tussles will distract governments and erode the goodwill among stakeholders and public trust in the reform agreement. Goodwill from all sides and a commitment to putting aside short-term political gain for the longer-term benefit of the country will be required to promote a public hospital system which can focus on health care instead of playing politics.

In improving linkages with primary and aged care the role of Local Hospital Networks (LHNs) will be critical. If they are not effective in engaging hospitals, clinicians and Medicare Locals they will be unable to drive changes to improve the quality and coordination of care. This means that hospitals would continue to see high numbers of people with preventable problems and thus require increased funds to treat them, leaving less funding available for preventive efforts to reduce hospital demand – a vicious circle. To be successful LHNs will need

not only adequate funding and support but also people who are able to work across the two very different cultures of hospitals and community-based care. If LHNs become too embedded within hospitals they will struggle to integrate primary and aged care services and professionals.

Primary Care

Early signs from Medicare Locals (MLs) are promising, if a little inconsistent. Most MLs have made a rapid and apparently successful evolution from Divisions of General Practice and have emerged as broad primary health care organisations embracing a range of primary health care professionals.³¹

However, for MLs to take the next step and be successful in driving change within the primary health care sector they will need to engage effectively with their communities as well as health care providers and services. This will require both the funding and expertise to conduct community consultations and population health assessment and to develop effective strategies based on these. It is not clear yet whether or not MLs have this capacity. The key to their success in this area will be skilled management by public servants. Management will need to identify those MLs requiring additional leadership and support while giving those already competent in this area increased flexibility to address their local health priorities with minimal restrictions. The ability of MLs to develop innovative local responses to health issues in their communities will be hamstrung if the Government imposes onerous administrative requirements and inflexible funding and reporting arrangements.

The ability of MLs to maintain engagement with GPs will also be crucial to their success. Many GPs are jaded and cynical about the constant policy changes in the primary care sector and some medical interest groups are reluctant to support a more integrated approach to primary health care. Without strong support from both GPs and other health providers, MLs won't be able to support the type of integrated primary care that best meets our current health care needs.

If MLs are able to successfully tread this line, they can play an important role in reorienting our health system towards primary care. This will reduce preventable disease and disability and result in a more efficient use of health care resources.

Consumer engagement

The reform agenda aims to create a more consumer-focused health system and this can only occur if MLs, LHNs and individual health services make community engagement central to their work. To do this they will need to develop skills and experience in working with their communities and using consumer input to improve their services. When consumer engagement is undertaken systematically it will increase health literacy within the community, which in turn will enhance the contributions consumers can make when they are consulted. Once consumer engagement becomes entrenched in the health system at all levels it will result in ongoing improvements to services and a culture of partnership between funders, providers and the community. This should result in fairer access to services and ultimately a healthier population.

However, this requires that health services have a genuine commitment to community consultation, as well as the resources and skills to do this properly. Many MLs may not have the skills or resources to conduct comprehensive community consultations will therefore not be aware of their community's needs and priorities. A key challenge will be engaging with disadvantaged groups, which are often those with the greatest health need. We must ensure that our approach to consumer engagement doesn't worsen the 'inverse care law' – the tendency for good health care to be most available to those who need it least, and least available to those who need it most.³² If consumers from disadvantaged or marginalised groups are not adequately consulted it is unlikely that the reform measures will address their needs. As underserved communities and consumers are often the least equipped to navigate the channels of advocacy (at both an individual and system-wide level) this can compound existing disadvantage, as only those who are already better served have the chance to demand improvements to their services. A key challenge will be to ensure community consultation moves beyond engagement with isolated consumer representatives and peak bodies to become a broad systemic approach to developing policies and programs throughout all levels of the health system.

Prevention

As with consumer engagement, the key challenge for preventive health strategies is to ensure that they are implemented in a coordinated and integrated manner across sectors rather than as a series of isolated measures.

The Australian National Preventive Health Agency (ANPHA) is working to develop strategies to address three main risk factors (tobacco, alcohol and obesity). However, it is not yet clear how these are going to be integrated into existing state-level initiatives or those that will be developed at the primary care level by MLs. The narrow focus of the ANPHA may also result in a failure to address the underlying causes and social determinants of health. Due to this and the fact that the ANPHA does not have the ability to make changes in other areas (for example through legislation or taxation), it may struggle to achieve any significant improvements in health status among the target groups.

At a local level MLs will need support and funding to work effectively with local services and health professionals to increase the focus on prevention within the primary health care sector. It is also important that these initiatives are comprehensively evaluated and that their evaluations are used to inform the development of future community-level initiatives. Engaging GPs and other primary care providers in preventive health activities will be difficult, particularly as the fee-for-service payment system creates a barrier to their participation.

Cooperation of the States and Territories will also be required to develop effective preventive strategies at the national level. If the States and Territories are reluctant to share their skills and expertise with federal agencies all jurisdictions will continue to work in isolation. There is also a danger that the States and Territories may cut their preventive health budgets on the basis that this is now the responsibility of the Commonwealth.

Demonstrating the success of the preventive health measures will be crucial. Under budgetary pressures, the Government tends to see preventive health as an

easy target and reduces funding, further undermining the capacity of the primary care sector to engage in preventive health. This would mean that preventable health problems continue to develop and the chronic disease burden increases.

CONCLUSION

While the reform agenda has some major gaps, it nevertheless represents the most comprehensive plan to update the health system since the introduction of Medicare in 1984. With the reforms still in their early stages, a definitive assessment of their outcomes cannot yet be made. In a 'best case' scenario, the modified reform plans would integrate well into the current health system to deliver the coordinated and consumer-centred care outlined in the original plan. This could be achieved if the gaps identified above are addressed, in particular in the areas of consumer engagement and health financing. This would support the existing reform measures by strengthening the underlying health system structure and supporting greater integration across the health sector. However, if the need for change in these areas continues to be ignored, it will undermine the potential gains of the reforms already undertaken. This would leave us with a muddle of poorly integrated measures, scaffolded onto a fundamentally unsound structure, which will not deliver significant improvements in the quality and efficiency of care. Building on the early gains of the reform process and addressing these key gaps is the key to success: a health system that will meet the needs of current and future generations of Australians.

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CHAPTER FOUR

Putting society first: welfare for wellbeing



by Eva Cox

INTRODUCTION

'A comprehensive social security plan to guarantee all citizens a means of livelihood in every case where they are unable to get it by working'

Stephane Hessel, resistance fighter during WW2

The post-war welfare state was created by people who had seen extremist politics break out in the 1930s, fuelled by the poverty and frustrations of the Great Depression. In an effort to avoid the conditions that paved the way to World War Two, post-war governments introduced policies to ensure that all citizens without paid work would be entitled to a decent level of income security. Over the years that basic entitlement was joined by other efforts to use

public funding to share risks collectively. This progressed until the 1980s, when neoliberal attempts to shrink governments undermined the expansion of the welfare state and replaced it with a minimalist safety net. The idea of basic social security for those not in paid work lost its place, along with other aspects of our social contract. It was replaced by a focus on self-reliance in the marketplace, with a punitive welfare system for those outside it. As the failures of neoliberal thinking cause havoc across most of the Western world, it is time to revisit the role of the welfare state in holding societies together when economies fall apart. We also need to reshape our welfare system to support wellbeing now that more women have paid jobs and the need to juggle paid and unpaid work is growing.

In Australia, recent moves by both major political parties have replaced the idea that all working age people are entitled to basic income security with the idea that most recipients should be subject to an incoherent set of behavioural controls in order to receive their conditional payments. Australia now has an increasingly confused, complex and unfair income support system.

These new policies fuel community tensions by drawing an ever-shifting but nevertheless divisive line between those contributing in an officially approved way and those classed as ‘bludgers’. They also fuel anxiety at all levels, by ignoring people’s need to maintain and extend their social wellbeing and relationships. There is a wealth of evidence on the importance of strong relationships to people’s wellbeing and mental health.¹ We need a welfare system that recognises that individuals do not and should not live out their entire lives as economic actors. Participation in the workforce is one important aspect of our lives, but it can be limited by many factors. A good society also depends on the contributions of those not in paid work, or not in full time work, whose non-monetised contributions to the common good are often undervalued or overlooked.²

Income security policies that are solely based on the formal trading of labour or goods fail to recognise that we live in a society, not an economy. A good society would value people’s need to live well, rather than assuming they only wish to be well off. It would provide income support for those whose social contribution does not fit the ‘get a job’ mantra that is often the only official offer made to working age people.

We need policies that recognise and value those aspects of life that are not counted economically, but are intrinsic to the current and future wellbeing of our society: informal relationships, nurture and care, familial and social obligations, the pleasure of gifts and reciprocity. The social interdependence of human beings is core to our sense of who we are and who we want to be. We should measure social policies by how well they support us to build social ties and relationships.

The fabric of a healthy society – one with high levels of wellbeing, trust and social cohesion - depends on people’s ability to use their time to pursue a mix of roles. An exclusive focus on paid work is a relic of a gendered social system that no longer exists, where lives could be separated into the private (domestic and female) and public (industrial and male) spheres. This divide is diminishing. As women take on more paid work, there’s less time to spare for the work that they once did without payment. Non-standard hours and insecure forms of work have become more common, which creates new pressures and demands (see

Chapter 6 by Lisa Heap). Globalisation and technology make for 24/7 working hours, and the workplace is no longer clearly separated from the home.

Such changes make the responsibilities we have to families, communities and other interests much more visible. As our population ages, the need to spend time caring for people could rise just as the demand for time spent in paid work increases. The question of how we support people to take time out for life cycle, social and personal needs is becoming critical.

The blurring of lines between work and home does not erase the need for unpaid household production, supporting and caring for people, or taking part in community activities. Such social connectors form our sense of who we are, and all of them require time. A redesigned post-industrial income support program needs to recognise the moves many make in and out of paid work, voluntary and involuntary, as employment conditions change. It needs to support more fluid pathways between paid work and unpaid domestic and community work.

Redesigning income support to recognise the new balance between paid work and household and community tasks will benefit everyone. But it's particularly important for women, who too often are still implicitly allocated most of the unpaid tasks. If we are serious about gender equity, we need to challenge the assumption that production and consumption within families should not count publicly.

Currently caring for your own children is out, but paid care for other children is in. Giving away your home-made jam doesn't count, but selling it does. Creating something beautiful, funny or sacred is of no value, unless it is sold. Telling stories for nothing is not valued, so make sure it is paid for! All these unpaid interactions do, however, count socially. Income support needs to recognise the many different contributions that are important to a good society.

WHY IS INCOME SUPPORT IMPORTANT?

The post-war concept of the welfare state recognised that social stability depends on goodwill and relationships, especially between subgroups within a population. Trust in strangers and in major public institutions needs to be adequate to prevent the rise of populism and scapegoats. Widely held perceptions that society is unequal or unfair can feed community anxieties, which in turn feed the fear towards strangers and change. These divisions can become triggers for social unrest, undermine good public order, and reduce economic growth.

The post-war model obviously needs review. It comes from a time of full male employment, when unemployment was limited and rare, and women were expected to be supported by their husbands. However, we should retain the basic principles behind it:

- the need to share some risks collectively as a society
- the need to provide adequate income security to ensure social stability
- the need to avoid damaging levels of inequality by ensuring a fairer distribution of income and access to services

We should reject the ideologically driven changes made to welfare policies over recent decades. The dismal assumptions of neoliberalism – that individuals are primarily driven by self-interest and that inequality drives ambition, not despair – are deeply flawed. They fail to recognise that most of us prefer fairness and value good social and collaborative relationships.

At its most basic level, the welfare state is responsible for reducing the stress and anxiety faced by people in precarious positions. It creates security for people who cannot privately fund or insure against the kinds of risks faced by working-aged Australians. For many Australians the welfare state is the only barrier between an acceptable standard of living and poverty. Welfare lessens the impact of risks that all Australians are likely to experience at some time or another in their working lives. Some of these risks are enumerated in the latest report³ of the Household, Income and Labour Dynamics in Australia survey. Household crises are more common than one may expect:

- Around 3 per cent of respondents are fired or made redundant each year and 8 to 9 per cent experience a serious personal injury or illness.
- Between 15 and 17 per cent experience serious injury or illness to a close relative or family member and around 10 per cent experience the same for a close friend.
- 3 to 4 per cent separate each year and more than 10 per cent separated from a spouse or long-term partner between 2004 and 2008.
- Between 1 and 1.5 per cent change each year from being a couple with children to being a lone parent; 4.1 per cent over nine years.
- In these high-risk periods, the security of adequate, non-judgmental income support can lessen the stress felt by people in crisis, who would have time to reorganise their lives rather than being immediately forced into looking for paid work. This could have the practical advantage of reducing the impetus for higher pay and leading to more relaxed attitudes towards non-standard working arrangements. This is similar to the concept of 'flexicurity' in Scandinavia but would depend on higher taxes and a more generous welfare state.⁴

FAST FACTS: the trouble with inequality

Research over the last decade from the World Health Organisation⁵ shows that social inequality damages the social determinants of health, providing another strong argument for the redistributive role of the welfare state.

Other research by Wilkinson and Pickett⁶ shows the unacceptable costs of social exclusion – of leaving groups and individuals behind. Their work shows that inequality has structural, institutional aspects that affect the wellbeing of both the affluent and the poor. In countries where income distribution is more unequal, various health and social problems are more prevalent, including: lower life expectancy; worse literacy and numeracy; and higher rates of infant mortality, homicides, and obesity.

CURRENT DIRECTIONS AND PROBLEMS

Australia now bases eligibility for income support on whether the recipient has complied with a range of punitive pressures to get a job, rather than starting from the right to an adequate income. The assumption that underpins most current policy is that people excluded from paid work are somehow personally inadequate – unless they have other sources of financial support. If

you're the stay at home wife of a wealthy man you're 'exercising your choices'; if you're the stay at home single mother of kids over eight, you're a burden on society. The coercive policies underpinned by this assumption blame and punish victims, and fail to recognise the challenges they face when navigating our social and economic institutions. They also fail to recognise the significance of economic, demographic and policy changes that have occurred in the post-industrial period, such as:

- the encouragement of both partners into paid jobs
- the greater numbers of single parents
- the higher expectations for those with disabilities, including more participation in paid work, and more independent living arrangements
- the increasing amount of support needed for an aging population.

Specific issues faced by many job seekers include changing labour markets, employer bias, lack of jobs in some areas (see box) and the lack of adequate services and support to replace unpaid care.

TALKING SENSE on job-seeking

The official assumption that there are jobs available for all that seek them fails to recognise that there are not enough adequately paid jobs for everyone to share. Current job vacancy rates⁷ suggest that there are at least 4 official job seekers⁸ for every advertised vacancy.

Due to a decline in certain sectors, such as manufacturing,⁹ there is a shortage of entry-level positions for those with limited education and those who lack recent experience.¹⁰

Many job-seekers also face institutional discrimination and prejudice. The Australian Human Rights Commission, for example, has found that societal attitudes, as well as flawed laws and policies, have locked millions of older Australians out of the workforce.¹¹

It's likely that there will always be people who either cannot find an appropriate job or who need alternative ways of contributing their time and skills because employers think they are too old or just don't want them. There could be more paid work if the government funded more jobs for programs that rely on volunteers or are simply underfunded, such as Caring for Country or Meals On Wheels.

INCOME MANAGEMENT

The most dramatic changes to Australia's welfare state in recent years took place with almost no public debate. Both major parties have quietly embarked on a new experiment in socially conservative and coercive welfare: so-called 'income management'. These changes started as part of the Howard Government's 2007 Northern Territory Emergency Response (usually called the 'Intervention'), with compulsory income management in some 72 Aboriginal communities in the Northern Territory. Under income management, 50 per cent of income support and 100 per cent of other payments to Indigenous people

in remote communities were quarantined – to be spent in certain stores or on approved goods. In 2010, the Labor government expanded the policy to cover all working-age Centrelink recipients in the Northern Territory, removing the racial focus and excluding pensioners.¹²

Somehow the rest of Australia failed to notice that an unprecedented and dramatic shift in welfare policy was underway. In 2012, it was expanded as a ‘pilot’ to a subset of ‘vulnerable’ recipients in five new sites including Bankstown, Shepparton and Rockhampton. Centrelink classes people as ‘vulnerable’ for anything from being in debt to being the victim of domestic violence. Since then the government has announced that it would be extended to new categories, including ex-prisoners and young people who cannot live at home – regardless of their ability to manage their incomes.¹³

After five years in operation there is no evidence that compulsory income management is working, and there is evidence that it reduces people’s sense of dignity and self-worth.

- A survey by the Equal Rights alliance suggested that many of those affected felt shamed by using the BasicsCard. The evidence indicates that imposing unwanted income controls can undermine people’s sense of agency and self-control – both of which are essential for good health and wellbeing.¹⁴
- Myself and others at the Jumbunna research centre have looked at the effectiveness of Income Management and found that the studies and statistics available showed no reliable evidence of benefits to individuals or communities.¹⁵
- The New Income Management program in the Northern Territory has now been evaluated by the Social Policy Research Centre at the University of NSW. Its report found limited objective data to support some of the supposed benefits of the program. It revealed a widespread sense of being treated unfairly and being disempowered, and also noted that some of the positive perceptions of the program’s impact were not matched by actual changes in circumstances.¹⁶

The signs are that income management is likely to be widely expanded by whichever government is in power. This is a massive change to the basis of the welfare system – taking place without adequate scrutiny or supporting evidence. The unanimity between the major parties on this issue is odd, as the Labor Party would once have been opposed to removing the rights of the unemployed and sole parents, but now they share the Coalition’s socially conservative welfare outlook. This is a clear move away from the Labor party’s traditional value of assisting those who are economically excluded by recognising and addressing the structural nature of their exclusion. The bipartisanship on this new authoritarian approach to income support is alarming, and clearly takes advantage of public prejudices against those it affects.

The demonisation of welfare has been widespread and effective. For many years, everyone, from politicians to public commentators and current affairs presenters, has accused welfare recipients of being ‘bludgers’ who are ‘ripping off working taxpayers’ and failing to take responsibility for their own upkeep. The ‘passive welfare’ label is used to justify the introduction of income management and other paternalistic policies, which control welfare recipients’ activities

with the pretext of teaching them how to behave responsibly. The design of such policies increasingly includes high levels of policing, low payments, reductions in eligibility, and coercion, all of which are described as incentives to find paid work. Given the structural barriers, prejudices and other problems that make paid work unavailable for many, such policies are purely punitive.

TALKING SENSE on parenting payments

The Labor Government, supported by the Coalition, cut the income of 110,581 sole parents by moving them onto lower payments when their youngest child turns eight (this group of parents had been protected by the 'grandfathering' of a previous change along the same lines). The justification provided was that the cut would be an incentive for them to obtain paid jobs. However:

- 60% of those affected were already in paid work - yet still had their income cut by up to \$100 a week
- All the sole parents affected by the current round of cuts have already been officially expected to look for paid work for at least the past two years, since their child turned six. Many who failed to find jobs lack suitable work experience, and are also facing the difficulties of a tightening job market. There are far more job seekers than available jobs. Jobs with predictable, family-friendly hours are particularly hard to find.
- Similar cuts imposed on 40,000 more recent sole parents since 2006 failed to increase their paid work involvement
- The most recent ABS data shows that the employment rates of sole parents from 2005-2011 has risen and fallen in ways that cannot be correlated with the policy changes, let alone providing any claim for a causal link.
- Over the past 6 years, the Labor government has failed to recognise that the main responsibility of sole parents is caring for their children, whether they happen to be seven or eight years old. It is inappropriate to lump sole parents in with jobseekers on Newstart.

Those who lack earned or shared income, but are officially deemed capable of paid work, are defined as a problem, regardless of why or how this has occurred or their other activities or circumstances. Exceptions are made only for groups classed as 'deserving' – those deemed too old to work, those eligible for a full time carer payment or those defined as having a disability severe enough to make paid work nigh impossible.

Many of the recent changes have failed to recognise that family relationships and caring responsibilities require unpaid time. They impose outdated assumptions, based on last century's work patterns, that the model citizen is a full-time paid worker. For example, there is a new pilot project¹⁷ in which young sole parents with one year old babies are expected to return to education, and are clearly informed of the limits of their payments. Similarly, sole parents with eight year olds still have family and community responsibilities, but are expected to find work irrespective of location and transport limitations. A parent who needs

to drop off and pick up a child at the school gates on time can't take a job that starts at 7 am or ends at 7 pm. Someone with an aging parent who needs daily help around the house can't move cities to find work.

Welfare policies that actively support and assist people to transition into paid work are useful if they are effective – the negative effects of long-term unemployment on people who want to work are well documented.¹⁸ But by reifying the 'dignity of work', current policies fail to recognise that bad jobs and bad job relationships can do more damage than no paid job.¹⁹ A recent study by researchers at Australian National University found that people in jobs with 'low security, high stress and little control' were five times more likely to be depressed and twice as likely to be anxious as people in good quality work.²⁰ They also found that the mental health of people who shifted from unemployment into poor quality work declined more than that of people who stayed out of paid work. The physical and mental stress involved in looking for and keeping a bad or insecure job outside the home is tough enough to be damaging to some people.

Most of the current Labor Party platform²¹ repeatedly validates only workers and working families and fails to recognise other forms of social contributions. Correspondingly, their welfare policies increasingly penalise those not in a position to sell their labour or products. The recent cuts to sole parent payments, the refusal to raise Newstart, and reductions in eligibility for disability support payments, all clearly illustrate the current Labor government's move towards disciplining rather than assisting welfare recipients. Meanwhile the Coalition has flagged its intention to go further down the same path, including making 'Work for the Dole' compulsory for anyone under 50 who is unemployed for more than six months and suspending the payments of young people who live in areas with unfilled unskilled jobs.²² The OECD criticised the Work for the Dole program in 2000, stating the program 'may impede the integration of the unemployed into paid work.'²³ There is also a lack of evidence from a range of overseas programs and initiatives that coercive controls improve either living standards or wellbeing, even if they cut numbers of payment recipients.

Both major political parties should take a hard look at the difficulties faced by the people their policies affect. Their problems will not be solved by income management, by keeping payments like Newstart well below the poverty level, by tightening the criteria for paying sole parents and those with disabilities, or by more conditional rules for recipients. Apart from the individuals and families being damaged, these measures have the potential to divide the community and damage our social fabric. Blaming the long-term recipients of Newstart, for instance, creates divides by making it easier for the media to treat them as scapegoats. The official attitude exacerbates the exclusion of those who are already excluded. It ignores the possibility that their failure to earn income may be due to a wide range of factors, such as:

- institutional discrimination and prejudice
- structural factors such as the lack of entry-level jobs and the decline of some economic sectors like manufacturing (see Ian McAuley's Chapter 7 and Roy Green's Chapter 5 for more on this)
- changing employer demands for skills, qualifications or experience.
- perverse incentives in the system (see below)

IDEAS WE NEED NOW

A decent society, particularly a wealthy one with a high standard of living, should provide an income support system designed to bridge social and economic divides, not widen them. Given the importance of good relationships to wellbeing, we should design our welfare system to support rather than undermine the time we spend on unpaid care and social contributions. In a democratic and pluralist society, income support should be based on need, not narrow-minded judgments about the family structures or lifestyles of those receiving it. And in the interests of fairness and efficiency, the system should be as simple as possible.

Basic design principles:

- Access to income support should be universal, adequate, and based on rights and needs rather than an assessment or judgement of 'worthiness'. This will simplify the system and reduce the costs of administering and policing it.
- Payments should be adequate and automatically adjusted to provide a decent income to both long term and transient recipients.
- Everyone eligible for income support should receive payments based on a single rate with needs-based supplements, rather the current incoherent mix of calculations.
- Given the evolving nature of living arrangements, there should be a review of the cohabitation assumptions with people only be defined as supporting those they live with by mutual consent, not as a default assumption.

Australia's system is not simple. We have layered a mix of individual and household means-testing over a complex set of criteria for eligibility, then added an inconsistent approach to tapering out payments as extra income is earned. We even index different benefits to different measures of increasing living costs. So payments are offered at a variety of rates depending on your age, income, partner's income, number and age of children, level of disability, or some combination thereof. Changing households, parenting roles and views of financial aspects of partnering, such as the recent acknowledgement of same sex partnerships,²⁴ also raise the issue of how to define what is seen as a 'bona fide' domestic relationship. Currently this can be either accepted by partners or imposed by Centrelink. This needs to be addressed as part of any review, as the failure to recognise more complex households can create unnecessary tensions and unfair obligations.

This complex system makes it difficult and expensive to work out who is eligible for what payment. It also creates perverse incentives. Not too long ago, most people understood their entitlements, but now few really understand the more complex forms and procedures. A recent report from the Australia Institute found that in 2008 more than 168,000 Australians eligible for either the Parenting Payment, Carer Allowance, Disability Support Pension or Bereavement Allowance missed out on government assistance estimated to be worth \$623.8 million.²⁵ The research found that a lack of knowledge about available benefits and assistance, the complexity of claims forms and procedures, and the stigma attached to receiving government payments were all responsible for the large number of unclaimed benefits.

In such a system, how can people move in and out of paid work with any confidence? Many find the initial process of applying for income support difficult to navigate. If they succeed, they often then find themselves in a situation where a small amount of paid work would leave them financially worse off. If the withdrawal of payments and the loss of other benefits (such as rent subsidies and concession cards) is combined with the costs of being employed (such as child-care, clothing and transport) an overall loss of income is likely. Recent budget changes that allow some people to earn more before their payments cut out have barely begun to address this problem.²⁶ An extra 38 dollars per fortnight makes little difference, especially where it results in benefits being cut by 50 cents in the dollar.²⁷ Low-skilled jobseekers are often fairly expendable to their potential employers, and when they beat the odds to find low-skilled work (see the ‘Talking sense on job-seeking’ box above), that work is likely to be badly paid and insecure. So we’re asking a lot of people to make an expensive and risky leap into paid work. Even without considering the health costs that can come with bad jobs, it’s clear that forcing people into precarious, low paid, bad jobs is not useful and doesn’t lead to better outcomes.²⁸

Functions of the system

The welfare system should encourage social participation and wellbeing, and provide the basis for societies to grow effective links based on trust, resilience, diversity, respect, responsibility and autonomy.

Income support should be designed to recognise a range of ways of making social and economic contributions over the life cycle:

- People should be supported to take time out to care for children, parents and others.
- Some may want to make other socially and creatively valuable contributions that can limit the time available for paid work, and should be allowed to apply for time out at agreed intervals (sabbaticals).
- People with reduced earning capacities during periods of education or ill-health could also be supported through this system, but without the current constraints and inadequate pay rates. Current criteria, for both ill health and the types of education and training allowed, tend to be limited and prescriptive. Easing these bureaucratic processes would benefit those who do not fit complex criteria and also cut administrative costs.

RECOGNISING THE VALUE OF UNPAID WORK

Much of how we define ourselves, our value and our contribution to society is anchored in our paid jobs. But our unpaid roles, in and out of homes, are also significant and deserve formal recognition. Some contribute their passions and creative skills in ways that enhance our quality of life; others offer emotional support, enrich or sustain our cultures; help us find new ways of belonging; or serve community needs. Some focus on small services that enhance family and neighbourhood comfort, such as a local veggie plot; some offer emotional support for those without blood relatives; or fulfil other social responsibilities which demand time commitments that don’t fit with standard working hours. A society that offers every individual the chance to have some legitimate ‘time

out' will address a range of needs, both personal and social, and gain broader social benefits. Funding for such 'time out' could be based on agreed time limits and criteria for how the time would be spent, but such criteria should be much broader than the current focus on paid work.

A few employers already encourage social contributions from workers such as volunteering, so as to improve organisational cultures and loyalty, but this generally takes place on the terms of employers, not employees. As a society we seem to applaud pro-bono lawyers but view full-time volunteers with suspicion – unless they are independently wealthy.

In an ageing and more mobile society, there are increasing needs for informal support and contact, with technological changes creating new forms of connectivity and demands. The constant demand to 'get a job', as a cure for all forms of income inequality ignores options for other useful contributions that can create personal and social satisfaction. Policies need to recognise social changes such as smaller households, less local community engagements, fewer children and greater mobility, which all suggest the need for using new technologies and old fashioned personal contact to ensure that we can all stay connected in ways that affirm our wellbeing. Good local relationships need to underpin informal care and parenting, for instance, which deliver wellbeing and deserve a decent income base.

Payments need to create conditions that encourage people to contribute to social wellbeing in a range of ways. The challenge is to design a payment that supports entry into paid work, as well as recognising other ways of contributing. Why not create an allowance that recognises that most of us, at one time or another in our lives, will have limits to the time we can put into paid work? Such an allowance could subsidise flexible and irregular working patterns for those with primary care and other responsibilities.

A design for a fair framework for such payments should allow much freer movement into and out of paid work and cover a range of involvements that suit the person, the society, and the employment market. Such changes would allow people to optimise their earning time but still meet other personal and social needs. One important aspect of the need for such changes is the increased workforce participation of women, who are still providing most of the unpaid care. Women are therefore more likely to depend on public forms of income support during the non-earning stages of their lives, so supposedly gender neutral policies that focus only on economic contributions cannot deliver equitable outcomes.

Creating social and economic mobility without stigma

- Payments should be designed to encourage mobility both ways, between paid and unpaid work.
- The welfare system needs to recognise that Australia has embraced an economic path that makes the job market more volatile, and employers have shifted much economic risk onto individual workers by offering fewer secure jobs with predictable hours.
- To be fair, income support therefore needs to be adequate, non-judgmental and easy-to-navigate.
- An income support system needs to encourage mobility, innovation and risk taking – treating recipients with respect is likely to encourage them to

contribute to their full capacity. Providing a non-judgmental, non-coercive income support system would do much to reassure people that they are valued, and to encourage appropriate contributions to the common good. As is discussed in Chapter 6 by Lisa Heap, 40 per cent of Australians in paid work are in 'non-standard' employment arrangements: casual, fixed term contracts, labour hire arrangements or independent contractors. Since our industrial and employment laws provide strong incentives for, and few limitations on, employers structuring their workforce this way, insecure, casual, and precarious work will continue to be the norm for a large number of Australians.

A good society would offer an income support system without stigma or prejudice, with an adequate payment for all who do not have appropriate access to other forms of income. It would take responsibility for the structural barriers faced by the unemployed and it would recognise the pressures of their personal circumstances. Such a payment would facilitate workforce mobility by offering financial support for those who need to change jobs or find they have lost jobs, as well as countering some of the risks of precarious employment outlined in Chapter 6. It would create social equity by providing those who are incapacitated, whether temporarily or long-term, with the funding and support they need. It is likely that greater support for people moving in and out of paid work would increase workforce participation, which may help to offset the cost of increasing benefits and expanding eligibility.

Smart things to do soon

Policies based on the principles outlined above may well cost more than our current system – although given the costly overheads of complexity this is by no means guaranteed. Chapter 1 outlines some changes to our tax system that could cover any increased cost and deliver a fairer society at the same time. These principles should be seen as long-term guidelines for reshaping our welfare state to reflect a changing society.

There are also several smart things we could do straight away, such as:

- Raise allowances like Newstart to the pension level and extend the taper, in recognition of the lack of employment options for many and the need for casuals and contractors to be supported as they move between jobs.
- Put sole parents back on Parenting Payment, which recognises care needs and offers incentives for adding income without coercing people into paid jobs.
- Abolish compulsory income management and respect recipients' rights to make their own decisions on spending. Where people want assistance to manage their incomes, Centrepay could be expanded, and court orders used for extreme cases. Access to one's payments should be a right unless there is individual legal tribunal or court intervention.
- Recognise that bad jobs and high stress may be common in the precarious employment market, so welfare recipients should not be pressured to take jobs that do not offer decent standards.
- Remove the obligation for parents to perform a minimum of 15 hours paid work a week and replace it with more flexible objectives that reflect the type of work and pay rates available to people with caring responsibilities. Offer effective job search support for those who request it.

CONCLUSION

The welfare state of the 20th century was established to stop society falling apart because of bad economic decisions. The ideological shift from collectively sharing risks to fending for ourselves in markets may have masked that need for a time, but it is still with us. As we reestablish the welfare state for the 21st century we should be more aware of the need for social infrastructure to support everyone to live comfortable and balanced lives. This century's income support policy should meet changing social and economic needs, and ensure gender equity and fairness.

Social wellbeing depends on trust and goodwill. In a civilised society, everyone should be entitled to adequate income support and social services, whether they are contributing through paid or unpaid work, taking time to maintain their wellbeing, or simply being human. Access to adequate income support will optimise both social wellbeing and employment. The social security offered by a non-judgmental and decent payment system builds social trust, which is a precondition for individuals contributing their share of both paid and unpaid work. Such a system must recognise and seek to overcome structural barriers such as the lack of decent jobs, the biases of employers, the needs of children, and the fact that women are still, unfortunately, doing most of the unpaid work. It will also build the trust needed to solve some of the 'wicked' problems outlined in other chapters in this book, like collecting more public revenue and addressing environmental needs that require trust of others.

We must avoid the simplistic assumptions of neoliberalism so we don't return to the 'poor laws' era, to Malthusian views of original sin that blamed the poor for their poverty and paternalistically coerced and controlled them. A good society should be based on a more generous – and more realistic – view of humans as basically collaborative in nature. Most of us want to live well with others. Societies based on that assumption are more likely to thrive, as people respond more positively to appeals to their better angels than to shaming and blaming. The lessons of the nineteen thirties need to be remembered.

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CHAPTER FIVE

After the boom: where will growth come from?



by Roy Green

INTRODUCTION

Where will jobs and growth come from after the mining boom? This is the fundamental question facing the next Australian government, whose success will depend to a great extent on how it addresses this question. The resources investment of recent years may well bring additional production and exports, but it's becoming clear that the boost to our national income growth from the high commodity prices from Australia's latest mining boom is coming to an end, revealing a serious and potentially damaging fall in productivity. What do we need to do to create long-term growth and jobs?

HOW WE GOT HERE

Let's begin at the beginning. We have to ask ourselves, did Australia make the best use of the windfall from the boom that was never supposed to end? The economic gains were unprecedented in their size and impact, and even though temporary, could have prepared us well for a post-boom economy. Prior to the 2007 election, then opposition Finance spokesperson Lindsay Tanner complained that the Howard government had been 'rained with revenue by the minerals boom and it's wasting far too much of it and it's not building it for the future'.¹

The incoming Labor government had an opportunity to capitalise on the re-emerging mining boom, driven by demand from China and the region. However, apart from the government's deft handling of the global financial crisis, which was no small achievement, it is difficult to make the case that Labor did so much better than its predecessor in constructing an economic legacy for a world of knowledge-driven products and services. As well as being constantly distracted by leadership issues, the government made little headway against the prevailing economic orthodoxy: the misunderstanding of short term business cycle activity as longer term structural change, and the false belief that resources-driven growth had become such a permanent feature of the Australian economy that manufacturing and other sources of growth could safely be abandoned.

Clearly the global economy is going through major structural change, but this is less about commodity price fluctuations than innovations in technology and business models and the changing patterns of international trade and development. The problem and continuing challenge is that Australia is not taking as much advantage of these changes as we could. Both business leaders and policy makers have allowed the contribution to growth from trade to mask a steady deterioration in our productivity over the past decade, which will be fully laid bare as the mining boom fades in coming years.

This is nothing new. Australia has seen such booms before, which have ended badly, and their lessons have been widely canvassed.² We have also had the benefit of observing the impact of North Sea gas discoveries in the 1970s on Dutch manufacturing, as booming gas revenues drove up the value of the currency, making it much harder for Dutch industries to compete on the international market. It took many years with a laser-like focus on industry and innovation policies to overcome the so-called 'Dutch disease' and reconstruct and reposition manufacturing.

Similarly, North Sea oil and gas enabled the UK government of the 1980s to keep itself in office by fuelling a consumption boom with tax cuts. Only gradually was there a realisation that, in the words of J K Galbraith, the price of private affluence was public squalor, as schools and hospitals bore the brunt of neglect and key areas of manufacturing were lost, never to return. Ironically, the experience was repeated with the finance sector in the 1990s and 2000s, once more ending badly, with a new government committing to 're-balancing' the economy.

All Australia had to do was learn from the past – and observe the current approach of Norway, which actually learnt something from the experience of other resource rich economies. Norway has taken a public stake in its mammoth oil and gas assets, imposed a 76 per cent resource rent tax, and established a sovereign wealth fund to partially quarantine the exchange rate and provide an

income stream for investment in research and innovation. Beyond the boom, Norway will have given itself the best possible chance to build a competitive knowledge-based economy. Already it is a world leader in productivity performance – we have a lot of catching up to do.

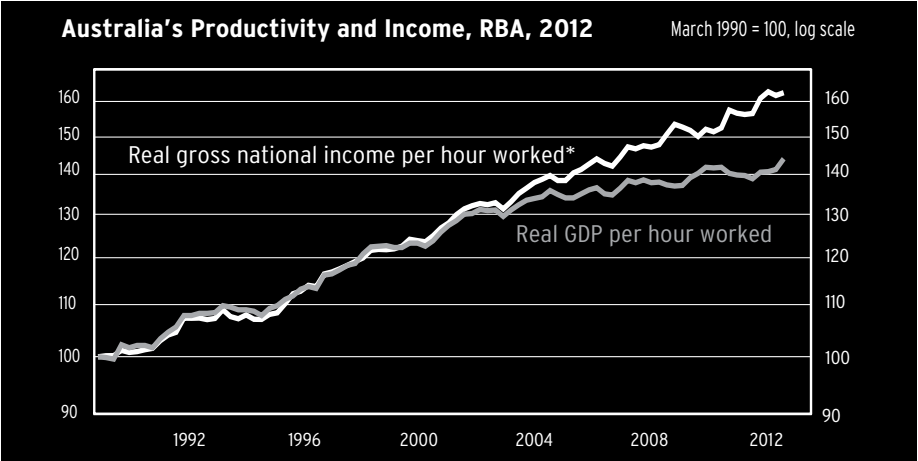
Productivity slowdown

Without a shared understanding of the problem, it’s not easy to come up with a solution to Australia’s productivity slowdown, which has only partly been reversed over the past year and not anywhere near the required scale of improvement. While economists and policy-makers agree that productivity drives growth, competitiveness and living standards, there is much less agreement on where productivity comes from, and how to measure it – and thus on the policies which contribute to sustainable productivity improvement. The need for productivity improvement has been sharpened by two separate but related problems that have recently received considerable public attention.

The first problem is the impending fall in Australia’s terms of trade from the heights reached during the commodity boom. The unprecedented rise in our terms of trade as a result of increased commodity prices delivered a massive boost to the growth in our national income in the early 2000s – around 15 per cent over a five year period – and has not inaccurately been described as the ‘gift from China’. Combined with an effective stimulus, the boom helped to shield Australia from the worst of the global financial crisis and make our economy the envy of the world.

However, it also masked the second problem, which is the deterioration of Australia’s productivity performance since the 1990s. While this problem could be safely ignored, and *was* ignored in the past, as rising terms of trade took up the slack, it is now increasingly exposed as the commodity cycle runs its course. There *were* warning signs but a cyclical event was mistakenly seen by many policy-makers and commentators as structural change (Figure 1).

Figure 1:



*Real GDP adjusted for the purchasing power of changes in the terms of trade and income accruing to foreigners

Source: ABS

Recently I prepared a detailed report with my colleagues Phil Toner and Renu Agarwal for the McKell Institute *Understanding Productivity* (2012), which explores Australia's productivity slowdown and the policy measures that are being proposed to address it. We found that just as the slowdown was previously ignored, it is now misinterpreted and exaggerated to justify measures that may have little or no relevance to our future productivity performance, and which may themselves have contributed to the slowdown.³

The report notes that most common measure of productivity performance is labour productivity, which measures the value of goods made or services provided either by hours worked, or by employed person. Growth in this kind of productivity slowed in the early years of this century. This was less a result of the waning of the 1990s microeconomic reform agenda than a consequence of the increase in total employment and, at least since the global financial crisis, the decline in output growth.

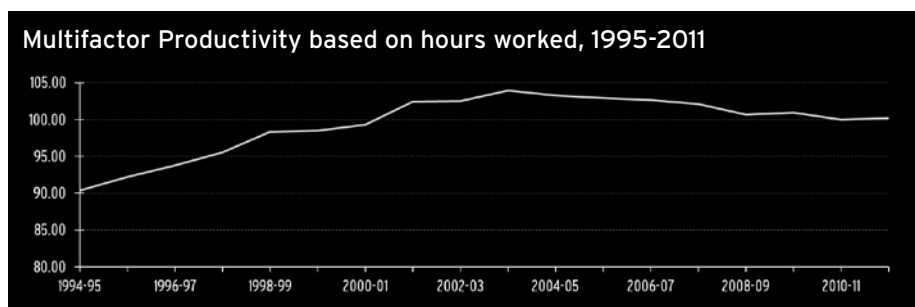
TALKING SENSE on productivity growth

Commentators have argued we need structural change throughout the economy to reinvigorate productivity growth. Some forms of structural change may well do so, particularly those in new technology and innovation, but not all: the structural change of deregulating the product and labour markets, for example, has simply shifted much of the jobs growth to low productivity sectors.⁴ Structural change of this kind is not the answer, and simply contributes to widening income inequalities.

Unravelling the slowdown

A better measure of productivity is 'multi-factor productivity' (MFP), which includes not only labour but also capital and other sources of productivity. Multi-factor productivity is also declining,⁵ but not generally: it's mainly the result of large falls in productivity in a small number of specific industries, chiefly mining, utilities and agriculture. While the productivity slowdown is less evident in manufacturing than in these industries, it is still something to be concerned about, particularly as the competitiveness 'bar' has been raised by the high dollar (Figure 2).

Figure 2:



Source: ABS 2012:

The decline in MFP in mining and agriculture is a reflection of well-understood and well-measured factors like drought and large capital investments that have yet to pay off. Much of this is temporary, as in the case of mining: huge capital investment will eventually bring increases in output as productive capacity is brought online. While resources exports may continue to grow, it will be in a very different world of lower commodity prices, lower margins and possibly lower overall demand as China and other importers gain access to alternative sources of supply and, increasingly, renewable energy technologies (see Chapter 8 by John Wiseman).

In addition, at least in the short term, higher commodity prices have made high-cost mineral deposits – those that are harder to reach and lower in quality – worth mining. This is simply playing out the long recognised phenomenon that the mining sector is subject to diminishing returns to scale, as the best and most profitable mineral resources are exhausted and miners move on to the next.

In the case of utilities such as electricity, gas and water, the recent big increase in capital investment was needed to make up for inadequate investment and large employment losses coming from privatisation and corporatisation in the 1980s and 90s. The apparent ‘productivity miracle’ in utilities during the ‘80s and ‘90s was mainly due to short-term profit maximisation through unsustainable cost-cutting.⁶ The surge in utilities investment in the 2000s was also promoted by policy measures to improve security of supply (e.g. desalination plants) or quality of supply (e.g. increased telecommunications coverage). As well, there is now clear evidence that electricity utilities are ‘gold plating’, or over-investing in network infrastructure above what’s needed to address past under-investment. Natural monopolies are always difficult to regulate, and there’s a strong argument that our utilities could have been more productive if governments had reformed rather than privatised them.

There is also the role of capacity utilisation – the difference between *potential* productivity and *actual* production. There have been large swings in the rate at which Australian industry has used its potential productive capacity over the last decade. Record high rates over the 2000s dropped rapidly to much lower levels after 2007 in response to the global financial crisis. When potential productive capacity is wasted – when machines stand idle and workers have nothing to do – the negative effects on productivity are obvious. But *excessive* capacity utilisation can also give rise to productivity declines, for example when equipment is operated continuously without being taken off-line for maintenance breaks, or when over-worked and exhausted employees make mistakes. Ideally, studies of productivity should capture and control for these effects, and so largely discount their negative impact. However, in practice this is a lot more difficult, giving us the large apparent decline in MFP over the last decade, which is now the cause for so much concern.

So, since the decline in multifactor productivity can be seen to be the outcome of a number of either temporary or policy-induced effects, there’s no evidence to support the claim that it stemmed from Labor’s abolition of WorkChoices or from excessive business regulation. Indeed, the period of biggest productivity decline coincided with the most radical deregulation of the labour market through the WorkChoices legislation, and, even more disconcertingly for the

headline writers, the recent small but significant upturn occurred in the context of the present government's Fair Work legislation. What evidence exists points to the positive contribution that 'fairness' and social inclusion makes to productivity enhancement at the firm level.⁷ For example, a 2011 study by the Society for Knowledge Economics found that in 'high performing workplaces' in the service sector – enterprises with high levels of customer satisfaction, innovation and profitability, the variables which differentiate them from 'low performing workplaces', have little to do with traditional measures of 'productivity'.⁸ Rather, the main differences have to do with the respect they show for their main assets – their people. High performing workplaces scored particularly well on perceptions of fairness and as places where people wanted to work.⁹

IDEAS WE NEED NOW

It is generally recognised that improved productivity is central to rising living standards and sustainable economic growth. With the immediate prospect of declining trade earnings as the commodity price cycle runs its course – and the corresponding pressure on Australia to reposition and compete globally as a high cost economy – living standards will be even more dependent in the future on increasing our rate of productivity growth, particularly in industries that depend on their sales to the rest of the world.

Australia is once again faced with a fundamental policy choice – the 'low road' of narrow cost-cutting and an unwinnable race to the bottom, or the 'high road' of longer term dynamic efficiency gains in a knowledge-based, high wage, high productivity economy. While a stable and supportive macroeconomic environment is an important condition for success, it is clear from research and experience that a high road approach should focus primarily on three empirically grounded and integrated policy measures.

First, support Australian business to increase innovation and improve performance, not *just* in R&D and physical resources, but also new business models, acquisitions of patents and technology licences, and the integration and 'absorption' of technological change.

Second, support the adoption of transformative management practices; drawing on cutting edge developments in management education and 'design thinking' and engaging with the full spectrum of talent and creativity in our workplaces.

Third, skill up the workforce and make the best use of the skills and ingenuity Australian workers already have, with a participative approach to management and work organisation encouraging individuals and businesses to reach their full potential.

Building innovation performance

Innovation is a major factor in productivity growth, which in turn drives competitiveness in a high cost economy. Innovative businesses in Australia are twice as likely to report increased productivity compared with businesses that do not innovate.¹⁰ Yet at the same time our innovation performance lags behind in a number of areas, particularly the commercialisation of ideas and the intensity of collaboration between businesses and research and education institutions.

TALKING SENSE on innovation

Innovation is about more than science and technology, important though these are in generating new products and services. Increasingly it includes non-technological forms of innovation, including new business models, design and systems integration and the development of the 'absorptive capacity' of enterprises (their ability to recognise and make use of the opportunities presented by new knowledge). Australia conducts less than 2 per cent of the world's research and development, so we can't expect to be excellent at everything, but we have to identify where we can compete effectively in global markets and supply chains.¹¹ This requires the kind of 'technology foresight' which other countries invest in but we do not, and it requires agile organisations that can shape and adapt to new technologies and skills.

The World Economic Forum recently noted that Australia has reached the 'innovation-driven stage' of development, where 'companies must compete through innovation... producing new and different goods using the most sophisticated production processes'. This requires strategic collaboration by industry, unions, employees and education institutions, and an expansive approach to research and innovation policy. As the 2008 Cutler Review of the National Innovation System pointed out:

*'Many government workplace and innovation programs in Australia are directed at technological or scientific innovation while only a few are directed at strengthening innovation management inside organisations, including leadership and culture... The challenge is how best to promote successful adoption and diffusion of high performance work systems in both the public and private sectors.'*¹²

In this context, Australia must look for opportunities to become a 'fast follower' as well as a 'first mover', and this will mean combining new ideas and business models with technologies developed elsewhere, which in turn requires new approaches to public policy. The key to such approaches are building innovation capability in firms and, more broadly, integrating their activities with complementary expertise in industry-led clusters and networks.¹³ As noted in the *Australia in the Asian Century* white paper:

*'Businesses are adopting new models of innovation, focusing more on better integrating internal activities, such as marketing, operations and design, and less on traditional research-intensive approaches. At the same time, they are more open to external ideas and the possibility of new routes to market, engaging with a larger number and wider range of collaborators.'*¹⁴

The present government has begun to incorporate such approaches in its newly announced industry and innovation policy *A Plan for Australian Jobs* (2013), which is a response to last year's Prime Minister's Manufacturing Taskforce report, *Smarter Manufacturing for a Smarter Australia* (2012), and a

further evolution of the earlier white paper *Powering Ideas: An Innovation Agenda for the 21st Century* (2009).¹⁵ The centrepiece of the policy is a \$500 million commitment to 10 ‘innovation precincts’, which are intended to deepen industry-led collaboration with public research organisations, such as universities, CSIRO and NICTA, and make use of targeted support for such collaboration through a new Industry Collaboration Fund and associated Industrial Transformation Research Program.¹⁶

The Innovation Precincts program has appeared late in the life of the government, but it is at least as significant as the policy breakthrough represented by the Hawke-Keating government’s ill-fated 1995 innovation white paper and the subsequent Howard government’s *Backing Australia’s Ability* initiative in 2001. The program provides a strong foundation for leveraging Australia’s productivity performance and competitiveness, one which is sure to endure beyond any one government, particularly if combined with a long overdue technology foresight process to identify key enabling technologies and capabilities for the future. The program also has support from industry and union leaders in the new Manufacturing Leaders Group, which superseded the Prime Minister’s Manufacturing Taskforce.

A further policy commitment is the expansion in scale and scope of Enterprise Connect, a real success story of the Labor government, though it also has its origins in a program of the Hawke-Keating era, the National Industry Extension Service, which was abolished and then resurrected as Industry Productivity Centres by the Coalition in its last days of office. With over 10,000 interventions since that time, Enterprise Connect provides high quality business advisory services with a measureable impact on firm performance, and will now be expected to move beyond improvement to the next level of business transformation. An important element of this will be the upgrading of management capability and employee engagement in Australian workplaces.

Developing management capability

Managers matter. The importance of management in firm performance was emphasised in the Karpin Report, which advocated an ‘enterprising culture’ based on entrepreneurship, leadership development, enhanced diversity management, a management competencies framework and major changes in business and management education.¹⁷ A number of researchers followed up the Karpin findings, including the Australian Business Foundation which showed that Australian managers were ‘good at solving tactical and operational problems in a creative way, but lacked the ability to sustain innovation in a strategic way’.¹⁸ Similarly, a 2011 survey by Ernst & Young found that 54 per cent of workplace respondents identified ‘people management’ as the biggest factor influencing productivity. Some 40 per cent of respondents believed that their organisations did not have the right technology or training on how to use it, and 20 per cent said their organisations were too bureaucratised.¹⁹

Our 2009 report, *Management Matters in Australia – Just how productive are we?*, benchmarked Australian manufacturing against 15 other countries on 18 ‘capabilities’ dimensions as part of a global project led by the London School of Economics. Australian managers lagged behind in a number of areas,

particularly people management and the crucial area titled ‘instilling a talent mindset’.²⁰ Moreover, Australia has the lowest proportion of managers with tertiary qualifications across the surveyed countries, which is a concern since poor management performance in such areas is closely linked with lower education levels. Similarly, a 2012 study by McKinsey found that in management practices Australian firms lagged behind many other countries, including Germany, Sweden and the USA; we were just ahead of Mexico but just behind Italy.²¹ There were similar findings in a 2012 McKell Institute study, finding that inadequate innovation and poor management were the main factors holding back productivity improvements.²²

FAST FACTS: why management matters

Our 2009 report found a strong relationship between good management and enhanced sales, productivity, market valuation and employment growth. A single point increase in the five-level management ‘scorecard’ matched an increase in output equivalent to a 56 per cent increase in the labour force or a 44 per cent increase in invested capital. In other words, a relatively small improvement in management had the same effect as adding half as much again to a company’s staff and equipment.²³ By implication, improving the quality of management is a much more powerful way to boost productivity than attempting to cut back on labour or capital costs.

The key conclusion for public policy drawn by the LSE contributors to the ‘Management Matters in Australia’ international comparative study was that:

‘Governments can play their part in encouraging the take-up of good management behaviour... [and] doing so may be the single most cost-effective way of improving the performance of their economies... Relentless improvement in educational standards is also essential. Better-managed firms need more highly skilled workers and they make better use of them, while better educated managers will be a key component of the performance transformation.’²⁴

More recently, a Society for Knowledge Economics (SKE) study of the practices of high performance organisations in the services sector suggested that ‘improving Australia’s productivity – or effectiveness at work and performance of our workplaces – is and will be largely a function of our commitment to develop leadership and management capabilities across all organisations in our economy’.²⁵ This is further supported by evidence from a UK Department of Business, Innovation and Skills study last year which concluded that ‘strong leadership and management is a key factor in fostering innovation, unlocking the potential of the workforce and ensuring organisations have the right strategies to drive productivity and growth’.²⁶

The SKE study combined conventional financial indicators with five intangible assets, including leadership, innovation, fairness, employee and customer experience to construct a High Performing Workplace Index. Significantly, those firms and organisations with a high score were found to be more efficient

at transforming their inputs (e.g. cost of assets, such as human capital) into outputs such as revenue for services. For every \$1 of investment, a high performing workplace generated 12 cents more in revenue than low performing workplaces, and profit margins were three times higher.²⁷

Earlier in 2005, the Work Foundation showed that if the management performance of 10 per cent of the bottom two thirds of UK firms was increased to the average performance of the top third, this would lead to around £1,600 added value per worker per annum – contributing £2.5 billion to the UK's total GDP and raising the trend rate of growth of the UK economy by around 0.25 per cent each year.²⁸ Similarly, in 2004, US researchers Black and Lynch found that a third of US output growth stemmed from productivity-enhancing managerial and organisational innovations at the workplace,²⁹ and in 2008 the Watson Wyatt *WorkUSA* survey concluded that when employees are highly engaged, their companies achieve higher labour productivity and lower staff turnover and provide higher returns to shareholders.³⁰

In this context, the government recently announced the establishment of a new 'Centre for Workplace Leadership' to supplement Enterprise Connect and related business improvement initiatives. The announcement was based on what the Minister's media release depicted as the 'substantial and growing body of evidence that shows that leadership, workplace culture and management practices have a significant impact on workplace performance, productivity, profitability and innovation. It also shows that good leadership which empowers employees delivers greater job satisfaction, productivity and motivation'.³¹

Depending on how it is operated, the new Centre could be an important start to filling the gap left by bodies like the Australian Centre for Best Practice, which was established by the Hawke-Keating government and then abolished along with the National Industry Extension Service by the incoming Howard government. However, the \$12 million allocated to this initiative is minor by comparison with programs of this type in other countries, such as the \$370 million Workplace Development Program in Finland, and the emphasis may well be placed in this context on the promotion of research and training rather than the transformation of management and workplace culture.

While government has a role in supporting leadership and management skills, so does industry and the higher education sector. Recent debate has highlighted how business education should change to meet the needs of employers, workforces and students. The Australian Business Deans Council is undertaking a major project on the 'Future of Management Education' to prototype new approaches to the teaching curriculum and engagement with business and the community.³² The project has identified a global trend towards a more integrative approach to learning, with an emphasis on 'boundary-crossing' skills such as teamwork, communication, design thinking and problem-solving, as well as specialised domain knowledge. Diffusing this approach will require an imaginative combination of public funding and innovative partnerships with industry.

Skilling the workforce

Workplace skills are a key driver of productivity improvement. These skills are acquired in a variety of ways, including through formal education, training,

work experience and other forms of informal learning. Workforce skills in Australian workplaces, however, are not fully used, with research showing that up to half of employers regard their employees as over-qualified or over-skilled. Underutilisation of workforce skills and knowledge represents a major drain on productivity and there is strong potential for Australian businesses to increase productivity through better use of existing employee skills. As the report *Australia in the Asian Century* points out:

*'Our greatest responsibility is to invest in our people through skills and education to drive Australia's productivity performance and ensure that all Australians can participate and contribute. Capabilities that are particularly important for the Asian century include jobspecific skills, scientific and technical excellence, adaptability and resilience. Using creativity and design-based thinking to solve complex problems is a distinctive Australian strength that can help to meet the emerging challenges of this century.'*³³

People learn skills and competencies – from basic skills to higher level technical and managerial skills – through formal education, training, work experience and other forms of informal learning. In competitive environments, as David Teece has argued, 'dynamic capabilities' are also required across whole organisations, which 'integrate, build and reconfigure internal and external competences to address rapidly changing environments',³⁴ enabling workforces to be more productive and in themselves act as a source of growth. The potential in Australia's workforce is not fully tapped, and organisations need to convert this latent potential to productivity gains.

There is a strong relationship between the *supply* of higher levels of education, training and skills and increased *demand* for and supply of technical and organisational innovation. At the most fundamental level, investment in capital equipment, innovation and human capital are complementary and mutually reinforcing. At an economy-wide level, increased investment in equipment that makes it possible to produce more with fewer workers, as well as other innovation-related investments such as R&D and organisational re-structuring, go hand-in-hand with an increase in the supply of and demand for higher skills.

There are a number of factors at work. The rapid growth in the 'volume' of productive knowledge requires ever-higher capacity on the part of firms and individuals to identify, evaluate and adapt this knowledge. An increased rate of technical change also introduces greater 'uncertainty' for firms, which in turn demands an increased capacity for adaptability and broader problem-solving skills. Higher workforce skills are driven by an ever-growing intensity of international competition, which has led many firms in developed economies in the direction of competing on quality, design and innovation.

In addition, the skills and knowledge associated with ICT-enabled social media and networking technologies create significant value in their own right. According to a report last year by the McKinsey Global Institute, companies could raise the productivity of knowledge workers by 20 to 25 per cent by adopting these technologies, though 'realising such gains will require significant transformations in management practices and organizational behaviour'.³⁵

The problem is that despite these strong connections between skills, innovation and productivity, many industries and workplaces are still in a state of 'low-skill equilibrium'. As indicated, a key reason is skills under-utilisation, where someone is either formally over-qualified for their current job or is regarded by their employer as having skills in excess of the requirements for the job. This under-use of workforce skills and knowledge is bad for productivity. Investments – either by business in training their workforce or by people investing in their own education – are not being fully realised. By engaging workforce talent and creativity, a more participatory approach to work organisation will ensure that upgraded skills translate into higher productivity.

CONCLUSION

The Rudd government came to office in 2007 with a strong philosophical commitment to innovation and the development of a knowledge-based economy as the key to improving Australia's lagging productivity performance. This commitment was symbolised by the inclusion of innovation in the portfolio title of the Minister and his Department; and, looking back, much has been achieved in the past six years by both the Rudd and Gillard governments, particularly Ministers Kim Carr and Greg Combet, the latter with an additional challenge of negotiating the vicissitudes of minority government.

Despite the global financial crisis, investment in innovation increased and there has been a broadening of policy beyond the traditional focus on research and technology development to non-technological forms of innovation, deeper collaboration between industry and research institutions, integration of design with the strategy and operations of firms and the encouragement of productivity-enhancing organisational and cultural change at the workplace level. These new approaches to policy development have also had to encompass both immediate measures and longer-term structural transformation of the manufacturing sector, under severe pressure from the exchange rate and other factors, to enable firms to be competitive in an increasingly high cost environment.

However, there is still a big problem, which is that the dynamics of innovation and the repositioning of Australia's economy in global value chains has always been seen by the 'central agencies' as marginal or even irrelevant to economic policy, something for the market to work out and, through a spontaneous process, to optimise. This approach is informed by static equilibrium models of deregulation, competition and most recently the 'mindless fiscal austerity' former Treasurer Wayne Swan scornfully dismissed when it was applied in Europe.³⁶ Indeed, the same economists who claimed not long ago that the mining boom would go on forever, and that this would mean the end of trade-exposed industries such as manufacturing, are now casting around for new sources of growth as it becomes clear they have confused the operation of a business cycle with structural change.

While the Gillard government acknowledged a role for public intervention, and that this was a time for more investment in research and innovation, not less, it tested its budget surplus ambition to destruction by reversing much of the growth in public expenditure in these areas, and by funding new initiatives, such as the Innovation Precincts program, from existing ones. The very

shortcomings of the previous Coalition government's policies, which were criticised at the time, would seem to have been replicated.

Most egregiously, after winding back its commitment to research infrastructure spending last year, the government chose to fund the Gonski school reforms with an 'efficiency dividend', which will altogether cut higher education expenditures by \$3.8 billion and bring funding per student in Australian universities back to the level prevailing when it came to office. The restoration of Kevin Rudd as Prime Minister and reappointment of Kim Carr to the expanded portfolio of Innovation, Industry, Science, Research and Higher Education provides one last chance before the election to rethink this short-sighted approach, which runs counter not only to the aspiration of a high skill, high productivity economy but also, according to a poll conducted for Universities Australia, to the views of a large cross-section of the electorate.

In sum, the legacy of the Rudd-Gillard governments will be their admirable commitment to a 'joined up' 21st century innovation, skills and productivity agenda, but a failure to take full advantage of the boom to implement this agenda, and, ultimately, as the boom ended, a capitulation to excessive and unjustified fiscal tightening. With low debt and continuing growth in the Asia-Pacific region, Australia has a unique opportunity to build the innovation capability and performance of its enterprises, develop its competitive advantage in knowledge intensive products and services and participate successfully in global networks and supply chains. However, this is a challenge which will require significantly greater investment in our research and education infrastructure. The question is not whether we can afford to meet this challenge but whether we can afford not to meet it.

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CHAPTER SIX

Taking the high road: a future that works for workers



by Lisa Heap

It's time to talk about what's happening in Australian workplaces. Too many Australians are struggling to deal with the impact of insecure work. This insecurity creates first and second-class citizens, with temporary migrant workers relegated to an even lower rung on the ladder.

Insecure work is characterised by the lack of guaranteed social and economic security, and the inability of workers to exercise control over their working lives. The Howe Inquiry on Insecure Work listed several indicators of insecure work. These included unpredictable pay; inferior rights and entitlements; limited or

no access to paid leave; irregular or unpredictable working hours; uncertainty over the length of the job; and lack of input on wages, conditions, and work organisation.¹

WorkChoices was one of the most unpopular policies to be brought in by an Australian government since conscription. Nearly 59 per cent of Australians opposed its introduction,² yet our failure to respond to the transformation of Australia's job market means that many Australians will go through their working lives as if WorkChoices was never repealed.

The conversation about the future of work in Australia is too important to leave to the usual industrial relations stakeholders. Work may not define us, but it has a major impact on our lives.

*'The significance of work is also larger than simply its meaning to the individual person. Work plays a critical role in the very constitution of a society. The interdependence of citizens through their work is one of the most important structural bonds of any community.'*³

Despite their bitter battles over industrial relations laws that affect 'standard' employees, both major political parties have failed to address the rise of work insecurity. As a result, employers are being allowed to sidestep regulation, avoid the payment of fair minimum entitlements and create cultures of insecurity that do real damage.

Insecurity doesn't just exist for those engaged precariously. Permanent employees also face insecurity when they are far removed from decision-making within the workplace that affects them and when they experience bullying at work. There is also some evidence that permanent employees in workplaces with more temporary workers have lower job satisfaction and higher anxiety.⁴

Insecure workplaces lead to stress-related illnesses, lack of investment in skills, and the failure to fully use the skills workers already have.

Australia and New Zealand were the first countries to guarantee workers a minimum living wage at the turn of the twentieth century.⁵ Tripartism, where the state, business and labour collaborate in setting economic policy, has at times provided a more balanced environment of respect for workers' rights. The era of Prices and Income Accords through the 1980s is one example of a time when more of this type of cooperation took place. The loss of co-operation between employers, unions and government over workplace issues means long lasting solutions are hard to come by. Add to this a lack of respect for the role of unions in our community, and policy frameworks based on neoliberal philosophy, and those solutions feel even further away.

PROBLEM:

NON-STANDARD WORKERS MISS OUT ON STANDARD RIGHTS

Our system of workplace regulation was originally designed to protect 'standard' employees. However, non-standard forms of employment are entrenched for around 40 per cent of the workforce. Many of these workers experience financial, mental and physical hardship due to their working

arrangements, and a significant number would prefer more certainty about their work arrangements (see ‘Talking sense on the demand for casual work’, below).⁶

Historically in Australia the ‘standard’ worker was male, full-time, and a permanent employee. He changed jobs rarely, if at all; he worked neither part-time nor regular overtime; and his wife and children depended on him for the family income. Benefits were defined, and fought for by trade unions and social policy activists, based on his needs and his work patterns. Policy, laws and the mechanisms to achieve them were designed to protect him from economic and social risks, and through this to reduce social inequality and increase economic efficiency.⁷ This model formed the basis of the industrial awards that historically shaped the working conditions of most Australian workers.

Many workers no longer fit this standard definition. 19.8 per cent of all workers are casual. This level of casual employment is now entrenched in Australia, with casual labour maintaining around a 20 per cent share of the workforce since 1996.⁸ Women are more likely to be casuals: 25.5 per cent of female employees compared to 19.7 per cent of male employees.⁹ Almost another 20 per cent of the workforce are independent contractors or engaged in unincorporated businesses.

Not everyone working in non-standard work arrangements is being exploited. Some, in highly specialised fields with relatively strong bargaining power in the labour market may choose contracting arrangements because they suit their needs. However, for many workers in insecure work environments, the choice is not theirs, they dislike the uncertainty of hours and income, and their rights are adversely impacted by these arrangements.¹⁰

It is sometimes argued that workers like casual jobs because they are more flexible. Submissions to the ACTU’s Inquiry on insecure work detailed the experiences of many people who found that the opposite was the case. One such testimony highlighted the lack of flexibility available to casuals. The worker recounted being unable to take time off work because, as the breadwinner, she needed to make money while she could, and with no permanent position she couldn’t be sure when she would have a job again.¹¹

Casual or freelance workers are more likely to struggle with their rent than the unemployed, and finding accommodation at all can be difficult.¹² In fact, inadequate income, rather than unemployment, is one of the most significant factors leading to homelessness – 40 per cent of homeless people are working, usually in low paid, insecure work.¹³

Besides creating a class of workers unsure of their financial security, this movement towards casualisation is not beneficial for the economy as a whole. In the United States, Sarah Raskin, a member of the Federal Reserve, criticised the rise of temporary work (roughly equivalent to our casual work) as causing a sharp increase in the gap between rich and poor. This gap is not as large in Australia but it has been widening since the 1980s.¹⁴ Without protection of labour rights, the ability of the national economy to provide a ‘stable quality of living’ for all is challenged.¹⁵

Over the last 30 years the proportion of workers who fall into the traditional definition of the ‘standard’ employee has shrunk while non-standard employment arrangements have increased.¹⁶ This is a globalised phenomenon across the developed world. However, Australia has relatively high levels of casual

labour and the extent to which temporary workers are excluded from minimum employment benefits is uncommon among liberal democracies.

Comparing levels of casual labour between countries can be problematic due to different definitions of workforce categories. Nevertheless, quite reasonable comparisons can be made by linking Australian data on casual employment with overseas data on 'temporary' employment.¹⁹ This approach is often taken within the employment literature to compare Australia with other countries.

TALKING SENSE on the demand for casual work

Many argue that people who are casuals choose it because they like the flexibility it offers. A 2007 study found that over 50 per cent of casual workers indicated that they would in fact prefer ongoing work, even if this might reduce their income.¹⁶

Until relatively recently Australian awards and agreements did not provide comprehensive arrangements for ongoing part-time work. This meant that the flexibility needed for women to enter the workforce was only available via casual positions.¹⁷ The highly sought after prize of family friendly hours and 'flexibility' therefore came at a high cost – the loss of security. This is often described as women workers preferring the flexibility of casual work, however in reality, there has been no real choice.

Using this approach, Australia had the second highest proportion of temporary workers of OECD countries in 2011, behind only Chile.²⁰ In Australia 27.5 per cent of workers were classed as temporary (either casual or on a fixed term contract), compared to Chile with 30.3 per cent. The next best-ranked country is Poland with 27.0 per cent. This compares with an OECD average of 12.0 per cent. Australia's level of economic development compared to Chile and Poland would suggest that this comparison is not favourable. In the 2013 UN Human Development Index, Australia was ranked second, with Poland and Chile ranked 39th and 40th respectively. It is surprising that Australia is not more closely aligned with the OECD average. This high level of casualisation may be related to the poor level of protection provided to casuals in Australia compared to other developed nations.²¹ The fact that our workplace laws do not provide for the same rights and benefits for casuals as they do for ongoing employees is unusual.²² It is interesting to note that Australia is ranked as one of the most deregulated labour markets in the world by the conservative Heritage Foundation.²³

Australia is unusual in its acceptance of long-term employment without access to minimum employee benefits. Casual work in Australia is not limited to short-term or irregular working arrangements, and a casual can quite conceivably work the same hours as a full-time employee and still be exempt from benefits.²⁴ Other countries including the United Kingdom and other European nations do not make minimum employment benefits contingent on the employment status of the worker. Workers are still entitled to basic levels of paid holidays and maternity, paternity and sick leave, unlike casual workers here.²⁵

FAST FACTS: standard work is not so standard any more

In 2012 40 per cent of Australian workers were engaged through non-standard arrangements:

- casual employees (19 per cent)
- fixed term contracts (4 per cent)
- independent contractors (8 per cent)
- other business operators (9 per cent)²⁶

Just under 60 per cent of casual workers are under 35 years old and 54 per cent of part-time workers are working casually.²⁷

Insecure work is no longer limited to a small group of workers employed casually who are on the periphery of the labour market. Many insecure workers are engaged in high skilled jobs. Evidence before the Insecure Work Inquiry included many examples of growth in insecure work amongst university and TAFE lecturers, teachers, within the community sector and amongst state and federal public servants.²⁸

This transformation of the labour market has created an underclass of workers who miss out on many of the protections offered by employment regulation. Their reality can include chronic uncertainty, inadequate income, lack of access to mortgage and credit facilities, inability to afford health care, no paid access to family, carer's or annual leave, limited savings and a general slide into debt and potentially poverty. They report being victimised if they raise their concerns and they are less likely to be unionised. Until recently little was heard about the circumstances of these workers.²⁹

Migrant workers, particularly those on 457 and student visas, are particularly vulnerable to exploitation through insecurity. The Department of Immigration catalogued a number of incidents, including living in squalid conditions provided by the employer, underpayment of wages and allowances, working extended hours, occupational safety and health concerns, dismissal for accessing sick, carer's or pregnancy leave, and deductions from wages.³⁰ These reports provide us with an idea of just how far some employers are prepared go when side-stepping the rules, and how easy it is for vulnerable workers to slip under the radar.³¹

The reality is that until the use of temporary migrant labour was seen to be threatening the job security of the 'standard' Australian employee, very few people or organisations gave the exploitation of these workers public consideration. It is disturbing that rather than addressing this exploitation, many public comments have demonised or stigmatised these workers for taking 'Australian jobs.'³² Attacking the migrant workers has deflected attention from the failures in public policy that have allowed vulnerable people to be exploited by unscrupulous employers.

This is the stark reality for too many Australian workers today. Industrial relations stakeholders have been arguing about the direction of labour laws that are going to cover fewer workers if recent growth in insecurity resumes, as business owners sidestep regulation by entering into arrangements that limit the rights of workers and take them beyond the protection of Australia's minimum employment standards.

IDEAS WE NEED NOW

Protecting casuals

As outlined above, because our industrial relations laws and systems are designed with the permanent, full-time worker in mind, engaging an employee as a casual in Australia immediately allows an employer to sidestep a range of employment benefits. Those who work outside the 'standard' structure miss out on a long list of benefits, including annual leave, long service leave, rights to unfair dismissal remedy (unless they can prove ongoing employment), consistency of working hours, notice of termination, redundancy pay, and superannuation in some circumstances.³³

Clauses in awards and agreements have been, and continue to be, ill conceived. Even in the new Modern Awards the definition of casual worker is commonly expressed with no more detail than 'someone engaged as such'.³⁴ Under this formulation, almost any worker could be employed as a casual worker. It certainly provides a great deal of discretion to employers to engage workers as casuals. A definition of this type does not provide for any guidance to employers or workers as to when the use of casual labour would or would not be appropriate.

The gap in entitlements between casual and other forms of engagement is particularly large in Australia, encouraging employers to take advantage of the chance to reduce their obligations to their workers. Cashing out of minimum entitlements for casual workers through the use of the casual loading is something that is unusual. Other countries do not cement this causal link between casual work and loss of minimum entitlements in the same way.³⁵

The very concept of a casual loading says that fundamental rights can be traded away. The loading itself is not sufficient to fully compensate for what is lost. Casual workers are unlikely to progress up classification scales regardless of experience. They are less likely to have access to training and career, skills development or workplace solidarity.³⁶

Casual workers complain of being 'left out', of being excluded from the 'team'. One such worker related a common experience for casuals:

*'At one place I've worked, the office staff, the permanent staff...have their Christmas parties and everything. The casual workers are never invited no matter how often they go. One place I was going there for like a year or more and I never even got invited to their Christmas party. Other people were the same, they never got invited. (Rebecca, 50s, printing labourer/labour hire)'*³⁷

What's more, in reality many casual workers don't get the casual loading to which they are entitled. It is difficult for them to know whether the base rate (without the casual loading) that they are receiving is in fact the actual base rate that would apply to the work if a non casual worker was doing the job. So they can never be sure that the loading has actually been applied.³⁸

Beyond all those problems, enforcement is also an issue. The Fair Work Ombudsman has a role to play, however it's easy to see that there are a wide range of circumstances in which it can be a difficult task to establish what the appropriate benefits are for casuals. This makes it difficult to enforce.

Idea 1: Tighten the definition of casual work

In the short term, modern awards need to include a standard definition of a true casual worker which provides greater clarity on the appropriate use of casual work. This common definition should include the concepts of intermittency and irregular engagement – the things most of us think of when we think of the word ‘casual’.

Tighter definitions of casual workers should be matched with stronger ability for the tribunal to manage disputes. (See Idea 3 below)

Union officials need to be better prepared when bargaining to negotiate for clearer and more appropriate protections for non-standard employees. Historically, unions oppose casual and contract labour and opposed the development of minimum entitlements for part-time workers for fear that these ‘non standard’ workers would undermine workplace rights for standard employees. This historical legacy has meant that some unions have been slower to grasp and take up the cause of non-standard workers. It has also meant that many of these workers were not members of unions. Unions need to take more steps to organise this labour and negotiate for *their* workplace rights as well. There are some examples where this is occurring already including United Voice’s efforts with contract cleaners, and these should be promoted widely.

Contractors and labour hire

Classifying a worker as a self employed consultant or contractor takes a worker out of employment regulation altogether.

Also, if a company sources workers through a labour hire company they are able to legally put that worker at arms length. This means they can avoid paying entitlements under awards or enterprise agreements that might apply if the person was directly employed by them. In such cases there can be two classes of worker in the one organisation: those with all the benefits of being directly employed, and those who are technically employed by the labour hire company, but receive fewer benefits even if they do the same job as those who are directly employed.

Idea 2: Universal access to minimum entitlements

Australia’s industrial relations system makes an exceptionally high level of provision for the ‘opting out’ of minimum entitlements through mechanisms such as the casual loading, ‘no disadvantage’ test or ‘better off overall’ test, and via the exclusion and qualification of some groups of workers (casuals, fixed term, those employed by organisations of a particular size and via qualifying periods). That liberality toward exemption from minimum standards should be removed.

We need to recast our laws so that every *worker* regardless of the method or nature of engagement (so regardless of whether they are an employee or contractor, casual or migrant) has access to a suite of minimum entitlements or rights.

The usual counterargument is that most casuals would prefer to have the loading rather than access to the entitlements. In reality this view is often overstated given the evidence that over 50 per cent of casuals would like ongoing arrangements even if this might reduce their income.³⁹

Unfortunately measures adopted to address this issue, such as casual conversion provisions in some awards or agreements that allow casuals to move

to permanent employment after a period of time, have not stemmed the flow of inappropriate casual engagement. Anecdotally there are a number of reasons for this. Employers wanting to side-step this arrangement can do so by ensuring these workers never meet the qualifying period. Further these provisions do not recognise the power imbalance and the fact that many workers are fearful that if they choose this option they will be disadvantaged if the employer is unhappy with this. Also, the relative inadequacy of the actual base rate of pay may also be a reason why some argue in favour of maintaining the casual loading. That is, that without the loading attached to the rate they may not be earning a sufficient wage. Add to all of this the reality that many workers are not aware that they may have this right to choose ongoing employment after reaching a qualifying period.

A first step would be to extend the National Employment Standards to all workers regardless of employment status. This would help to build knowledge and understanding that everyone should have these minimum rights.

Consideration could also be given to creating portable leave banks so that *workers* could maintain accruals for leave in an account that travel with them from employer to employer. Portable leave schemes already exist in some industries (building and construction for example) in Australia. This would be particularly useful in industries where high levels of contracting work are involved.

Idea 3: Labour laws to 'cover the field' of work

In addition to, and supporting Idea 2, our workplace laws should cover all relationships *at work*, preventing sham arrangements that avoid classing workers as employees in order to nullify the protection afforded by the law.

There are examples of this in many other countries. As already outlined, UK laws provide minimum entitlements to all workers. Many other European countries also do this.⁴⁰

If our laws presumed an employment relationship for all workers, and allowed access to the tribunal to resolve issues in dispute where the nature of the relationship (employee vs contractor) itself is disputed this would greatly assist individual workers to access fair outcomes.⁴¹ Access to dispute settlement would no longer be linked to the employment relationship. Arrangements of this nature were included in the New Zealand Employment Relations Act 2000, brought in by the Labour government upon its election, but are now being wound back there.⁴² Allowing the federal tribunal to hear fair contract disputes (as was previously the case in the New South Wales jurisdiction) would assist here.

Idea 4: educate workers on their rights at the point of entry to the labour market

People need to know their rights when they first start working. Federal and state governments have dabbled with developing resources for young workers, but there's been no comprehensive plan to roll these initiatives out in a meaningful way.

The Australian Institute of Employment Rights, where I work, has developed the *Workright* resource – a comprehensive suite of curriculum resources about work rights and responsibilities aimed at Year 10 students.⁴³ This resource, while originally funded by the Victorian Labor Government, has not been picked up

by other governments and did not receive any funding for its roll out. Packages such as this can be used in schools. They can also form the basis of national curriculum on workplace rights.

Outreach programs for particular vulnerable groups of workers including seasonal, migrant, refugee, and workers on 457 and student visas are also important. Using the Migrant Resource Centres would be an option on this front.

The Fair Work Ombudsman should provide funding to assist in the roll-out of programs such as the *Workright* resource.

PROBLEM: POOR MANAGEMENT CREATES INSECURITY

Insecurity is not only experienced by those in non-standard arrangements. Those who are employed on a permanent or ongoing basis can experience insecurity of a different kind.⁴⁴ A recent survey by Auspoll showed that less than a third of employees feel 'very secure' in their job.⁴⁵ Management practices which devalue workers' contributions and sideline them from decision making – particularly about significant changes in the workplace – lead to anxiety and a sense of insecurity. Bullying and harassing behaviours have a similar effect. The relationship of trust that is needed for workers to feel valued and be productive is broken when management practice creates insecurity.⁴⁶

TALKING SENSE on workplace culture

The relationship between a worker and those engaging their labour should be a reciprocal one where both parties treat each other fairly. This is often referred to as the psychological contract. Workers expect to receive benefits such as job security, fair wages and entitlements and praise for a job well done in exchange for their efforts and loyalty to those engaging them.⁴⁷

All too often employers expect the productivity and work outcomes without the reciprocal commitment of security, decent treatment and the payment of fair benefits. Efforts to reduce labour costs, such as the recent attempts by employers to reduce penalty rates for workers, are examples of damaging behaviour that undermines the psychological contract, and can reduce motivation and productivity.

Poor workplace cultures can have a devastating impact on the physical and mental health of working people,⁴⁸ and are a concern across all employment sectors and all occupational levels.

These adverse health outcomes have implications for the individual worker, their co-workers, the business, the national health system and the international competitiveness of the Australian economy overall. For example, workers' compensation claims for mental health problems have more than doubled in the past ten years.

While the number of overall workers' compensation claims in Australia decreased by 13 per cent between 1996-7 and 2003-4, workers compensation claims categorised as 'Mental Stress' increased by 83 per cent from 4585 in 1996-7 to 8410 in 2003-4. In 2005-6, this increased to 8665 claims.⁴⁹

A supportive workplace culture has been associated with a variety of benefits for both workers and business, including higher levels of commitment to the organisation, greater staff retention, higher levels of job satisfaction, lower levels of stress and the experience of less conflict between work and family responsibilities.⁵⁰

Lack of leadership or poor leadership has significant effects on workers' wellbeing and their productivity.⁵¹

The advantages of effective leadership for workplace productivity are discussed in more detail by Roy Green in Chapter 5.

The late 2012 announcement by the federal government to create the Centre for Workplace Leadership is, potentially, a good development.⁵² The decision to create the Centre suggests that the culture issue is beginning to gain traction, however, little has happened since its announcement and this initiative will not change the on-the-ground culture if it defines leaders only as those holding senior management roles, and relies on trickle-down benefits from educating and developing them. Leadership must be broadly defined to include worker leadership and engagement in decision-making, as well as developing all those who hold supervision and management roles.

PROBLEM: LIMITED OPPORTUNITIES FOR PUBLIC DISCUSSION

The loss of a genuine tripartite commitment by government, employers and unions to shared problem-solving in Australian industrial relations is significantly hindering Australia's ability to develop a modern economy committed to industrial fairness and achieving productivity growth.

Opportunities to promote tripartism through the machinery of legislation have not been taken up. International Labour Standards (ILS) include the principle that government legislation should promote collaboration between labour inspectorates and employers' and workers' organisations.⁵³ The Fair Work Act neither encourages this or prohibits it and accordingly gives limited effect to the requirements of the ILS. This is a missed opportunity.

The industrial relations stakeholders also need to examine the role that they are playing in hindering the advancement of cooperative and productive workplace relations.

One example of the current impasse is in the area of flexibility and the labour market. Employer advocates are calling for 'flexibilities' (code for opting out of workplace rights) to be introduced into the system, citing the need for such 'flexibility' in order to promote productivity.⁵⁴ They have not supplied any credible evidence to support this assertion, but there is also no space in public discourse to debate it if they did.

Nor is there space in the public discourse for a genuine discussion of the policy principles we want to guide regulation. Do we want a low wage, deregulated industrial relations environment and the social dislocation and inequalities that go with that? What is the alternative? Are there genuine problems impeding productivity that can be addressed without workers' rights being trampled? The polarised nature of the discourse – employer associations and business groups versus the ACTU – keeps us from coming up with solutions.

Idea 5:

Expand the Centre for Workplace Leadership to become a Centre of Workplace Citizenship aimed at re-establishing genuine tripartism

We need a national resource dedicated to:

- Improving the quality of working lives of individual Australians
- Creating conditions for business success
- Enhancing social cohesion via the promotion of tripartism, respectful workplaces and the understanding of workplace citizenship
- Educating the Australian public about fair work practices and workplace citizenship.

The resource should be composed of representatives of employers and employees and those who broadly have an interest in the establishment of fair work practices and workplace citizenship.

While the ultimate aim would be for the organisation to be self-sustaining (founded in the recognition that fair work practices and respectful relationships are directly beneficial to the parties in the labour market), initial seed funding from government would be required in order to ensure the immediate success of the organisation, public recognition for its purpose and its ability to avoid a narrow fee-for-service model from the outset.

There is substantial public benefit in this kind of resource, warranting the investment of public funds. Employers and unions also benefit from this kind of initiative, and should be expected to invest as well.

Without initiatives designed to drive fairness and an understanding of workplace citizenship, organisations will continue with their current short-term approach focused on cost-based competition, and an adversarial industrial relations culture will persist.

Global competitiveness, in contrast, relies increasingly on adaptability and innovation rather than price. Service-related industries - heavily reliant on the quality of human capital - continue to grow in Australia. Short-term thinking and adversarial workplace relationships *impede* competitiveness rather than enhancing it.

PROBLEM: OUTDATED POLICY SETTINGS

The main rationale for government intervention in the world of work has been to redress the inequality of bargaining power between those who perform work and those for whom work is performed. Modern democracies implicitly recognise the inequality of bargaining power between employers and workers, and throughout the twentieth century sought to redress it through laws protecting minimum employment conditions and allowing for collective representation of workers.

In reality, there have been a number of problems with the policy settings meant to address this inequity, and with the ideology underpinning them.

Firstly, the parameters of public policy (particularly on how much government intervention is acceptable) have been drawn narrowly, reflecting neoliberal philosophy. As a result, only minimalist intervention is seen as legitimate, and protections and benefits are limited to minimum entitlements and rights. This is not an environment conducive to the introduction of measures to promote high skill/high wage initiatives or high living standards.

Secondly, as outlined above, even those protections have been guaranteed only to a certain group of workers who fit the definition of the standard employment relationship. In this environment, employers are tempted to create sham arrangements to avoid employment protections, which has fostered the growth of non-standard employment. This is the 'low road' approach.

Thirdly, if one of the purposes of industrial laws is to protect people who perform work, who are vulnerable to exploitation and who suffer as a result of an inequality of bargaining power, the current laws exclude a range of workers that logic and fairness suggests should be protected. This public policy objective is clearly not being met.⁵⁵

Finally, the role of unions in making sure the strength of the collective voice of workers is heard (previously accepted as a vital component of the system) has been undermined by anti-union laws, aggressive attacks on union legitimacy and the general decline in union membership.

TALKING SENSE on the economic impact of workers' rights

Extending workplace rights will not impose significant and unsustainable costs on the economy. In fact even the OECD, previously a staunch opponent of Employment Protection Legislation, has reversed its position on this.⁶¹

The OECD now acknowledges that there is no clear connection between employment protection laws and unemployment. It also notes a positive relationship between union collective bargaining and the relative wages of youth, women and older workers - with no negative impact on employment.⁶² Further, *Foreign Direct Investment tends to be greater in countries with stronger worker rights.*⁶³

There is strong evidence that greater 'flexibility' in labour markets, especially that which occurs by reducing the power of trade unions, increases inequality of earnings.⁶⁴ The income inequality and other undesirable social effects that may flow from increased flexibility may also reduce productivity.⁶⁵

Unions have an important role as a check and balance on executive power, as evidenced during the WorkChoices era, as well as employer power. Unions have acted as a barricade against the decline of workplace entitlements and conditions, and as union membership has decreased, so too have the protections and rights afforded to employees, not to mention the rise in income equality. Consider the fact that in 1986 46 per cent of working Australians belonged to a trade union, and by 2007 that number was down to 19 per cent.⁵⁶

This decline in union power requires a genuine conversation about, and reinvigoration of, the appreciation of unions as an important institution within our democracy,⁵⁷ something that does not appear to be a popular topic with governments of any political persuasion. Here, as in the United Kingdom, trade unions have been crucial to the electoral success of Labor governments. But, having been mobilised for money and resources, trade unions have been marginalised and treated with contempt.⁵⁸ The Coalition's industrial relations policy for the 2013 election specifically targets union power, calling for tougher penalties

for union officials, increasing regulatory standards and red tape, limiting their access to workplaces and tightening restrictions on the ability of workers to take protected industrial action.⁵⁹

Recent public discussion of unions has focused on a small number of union officials who have been accused of inappropriate and potentially corrupt activities. Obviously, in cases where claims of corruption are found to be correct, it must be rooted out. We should, however, be deeply concerned about any attempt to label all union officials as corrupt, given the clear ideological motivations of many union critics. No one suggests that all business owners are dodgy just because one is found to have done the wrong thing.

Weakening the institution of organised labour is something that should concern all citizens as it will ultimately undermine the fairness of our system – as was seen under the Howard governments WorkChoices regime.⁶⁰

The solution to current and future labour market issues lies in a rights-based approach. There is a large body of evidence supporting the association between stronger workers' rights and higher economic growth as well as improved distribution of income. There are many reasons for this, including improved possibilities for the development of human capital, reductions in industrial unrest, improved firm loyalty and reduced labour turnover.⁶⁶ For example, labour laws that privilege cheaper wages over the rights of workers actually drive down productivity. Firms with increased access to cheap labour have little incentive to lower costs and improve efficiency by developing and adopting new technologies.⁶⁷ While this is good for firms' profit margins in the short-term, diminished workers' rights are bad for the economy in the long-term.

Recent calls from various employer groups to increase Australia's productivity by regulating to reduce labour standards are motivated by ideology, rather than based on evidence.

We need to join together to make a strong public case for labour market regulations underpinned by a rights-based approach. This includes informing the public of the benefits of a rights-based approach and promoting a greater understanding of international rights-based instruments and how they apply to the world of work.

Idea 6: Decent work a new foundation to underpin security

The concept of decent work as a policy, legislative and practical framework for regulating work relationships is gaining purchase around the globe.⁶⁸ The International Labour Office has provided a good starting definition for decent work:

*'Decent work means productive work in which rights are protected, which generates an adequate income, with adequate social protection. It also means sufficient work, in the sense that all should have access to income-earning opportunities. It marks the high road to economic and social development, a road in which employment, income and social protection can be achieved without compromising workers' rights and social standards.'*⁶⁹

Central to this concept of decent work is the idea that work should be performed in an environment of freedom, equality and security. Workers' experience of insecure work is anything but decent.

The European Union Council has adopted a policy on decent work incorporating five key dimensions:

- quality of work and employment
- ensuring career and employment security
- maintaining the health and well-being of workers
- developing skills and competencies and
- reconciling work–life balance.⁷⁰

Australia should adopt the International Labour Office definition of decent work as our policy objective and framework for workplace laws, and use it when developing appropriate new forms of industrial regulation, policy, cultural change, educational outreach, and on the ground practice. Adopting the 5 key dimensions identified by the EU Council would enhance this framework. Our system of industrial relations should also be shaped by the following aims:

- To protect all workers against economic and social risks
- Reduce social inequality
- Increase economic efficiency
- To promote equal access for men and women to meaningful work that sustains them, their family and community
- Support lifelong learning in order to improve employability and increase flexibility in the workplace.⁷¹
- Promote the achievement of genuine tripartism.

CONCLUSION

The notions of decency and dignity at work, including a respect for employment security, have vanished from public policy frameworks and public debates on work in Australia. The principle of dignity at work was clearly challenged by the adoption of the WorkChoices legislation. The public rejection of WorkChoices has meant that no party has been prepared to publicly endorse that policy. However, they have not abandoned the neoliberal philosophy underpinning it.

Retaining a highly skilled workforce is good for the quality of output as well as the competitiveness, productivity and innovation of enterprises. However, some employers (and governments) are tempted to adopt ‘low-road’ strategies. The pressure to maximise short-term financial returns tends to induce employers to adopt these strategies, while the ideology of minimal state intervention and the need to keep business on side drives similar short-sightedness on the part of governments of all political persuasions.

Current workplace laws and policy are not delivering for a large number of workers, particularly the casuals, contractors and labour hire workers who face insecurity at work with no end in sight. We can no longer leave it to industrial relations stakeholders to be the only voice suggesting changes in this area. We all need to voice our opinion about whether we want Australia to follow the low road of workplace insecurity without end – or take the turn onto the rights-based high road.

CHAPTER SIX ENDNOTES

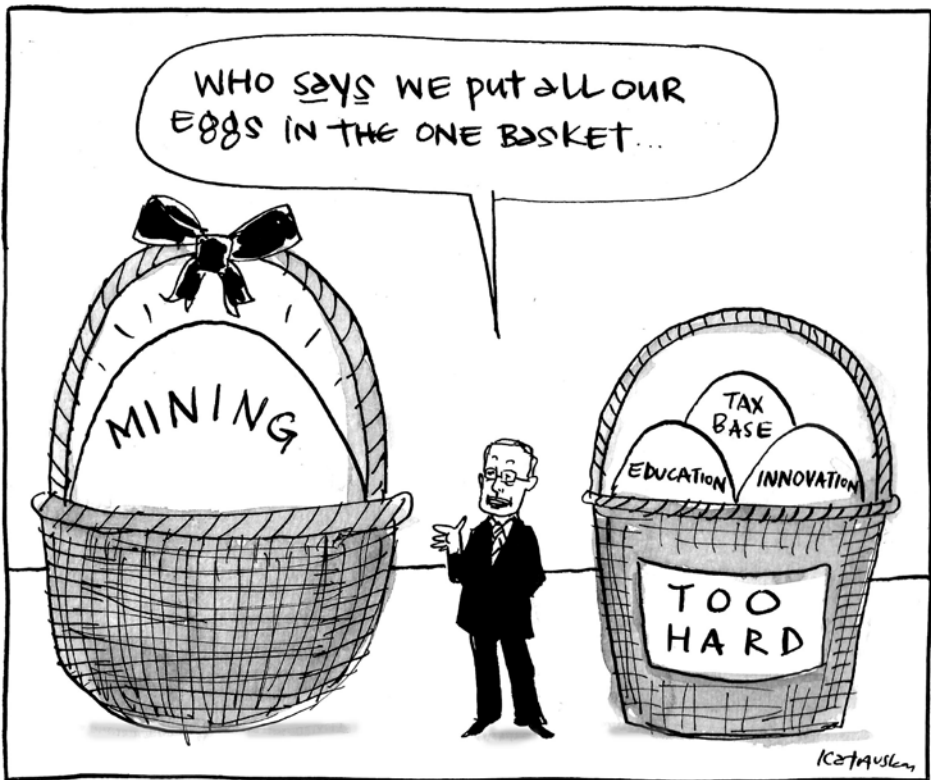
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 - (a) An employee may be engaged as a casual and must be paid an hourly rate calculated by converting the appropriate annual rate for the classification prescribed in clause 15 to an hourly rate and adding a loading of 25 per cent.
 - (b) Such loading is paid to compensate such casual employees for lack of continuity in employment, paid leave, termination and other employment benefits of a full-time or part-time employee.Based on the above formulation it would appear that the 25 per cent loading is designed to cover any other employment benefits. Was this intended? Whilst the amount of loading (25 per cent) appears common across all of the modern awards reviewed, the expression of what this covers in terms of compensation varied quite widely.
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CHAPTER SEVEN

Life after luck: building a more resilient economy



by Ian McAuley

INTRODUCTION

Australia has been described as a third world country temporarily enjoying first world living standards. Our per-capita national income is the seventh highest in the developed world, exceeded only by the Nordic countries and the financial havens Switzerland and Luxembourg.

By the more inclusive United Nations Human Development Index, which includes measures of health and education as well as income, Australia ranks number two in the world, behind Norway by only a narrow margin. Is such prosperity sustainable, or are we simply enjoying another run of good

luck – the latest in a series of booms in wool, gold and other minerals? Have we invested the income from these booms wisely to give our economy the resilience to thrive when they are over? When, in response to climate change or other environmental concerns, there is less demand for fossil fuels, will we be at the forefront of new energy technologies, or will we be left with abandoned assets?

While we have not suffered the extreme forms of what is known as the ‘resource curse’, our economic structure is not that of a developed country capable of holding its own in a competitive world. We have a weak capital base – not just physical capital, such as transport and communications infrastructure, but also other forms of capital, particularly human capital (the knowledge and skills of our people). We have not developed deep specialisation in any industry sectors apart from primary resources, the sort of specialisation that would help us ride out the fluctuations and shocks of the economy. Nor have we developed the suppleness to make quick adjustments in an uncertain world.

As in the past, the idea that we can go on enjoying good fortunes without effort has currency. Vested interests impede structural adjustment. We have been seduced by recurrent booms, like a novice gambler who has just had a lucky run. Even Donald Horne, author of *The Lucky Country*, had trouble getting across the message that luck doesn’t last.

The legacy of our economic history conditions how we think. After Federation we diversified our economy by building up a strong manufacturing base behind tariff walls. That started out as a smart policy, but it has left us with an undue concern for making ‘things’ rather than creating value. Our success in commodities, which allows for little product differentiation, has contributed to a ‘price taker’ mentality in business and therefore an obsession with production costs. We think about productivity in terms of mere cost reduction, particularly when labour costs are involved – as Roy Green and Lisa Heap point out in Chapter 5 and Chapter 6 respectively. And our strong growth in the twentieth century has created unrealistic expectations about profitability; we find it hard to imagine that the days of easy investment returns may be behind us.

Before considering these obstacles to securing long-term prosperity, it’s worth taking a look at the current state of the economy. While Australia has come through the Global Financial Crisis (GFC) well, our path through that turmoil has been much more rocky than a glance at the headlines suggests.

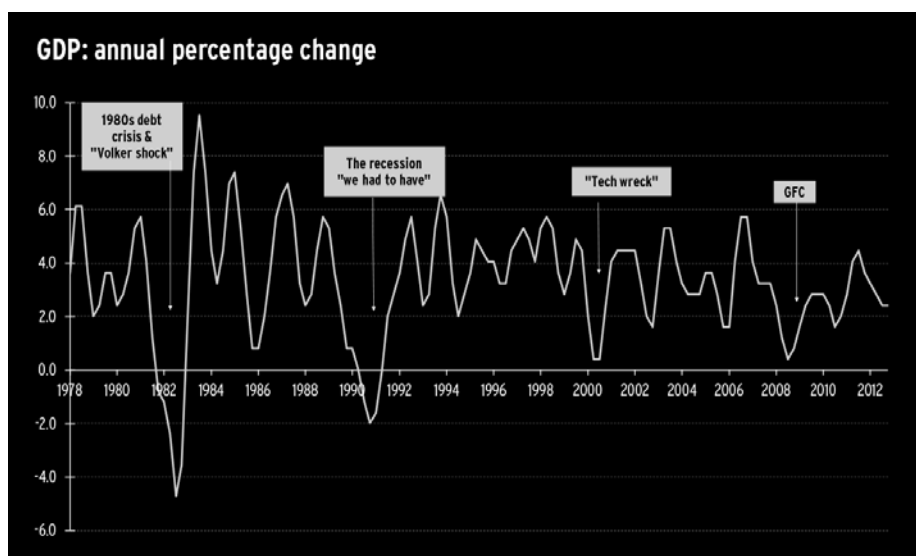
COMING THROUGH THE GFC – SOUND MANAGEMENT BUT WEAKNESSES EXPOSED

Compared with the economic shocks of earlier times, such as the recessions of 1982 and of 1991 (‘the recession we had to have’), Australia experienced what the rest of the world is now calling the ‘Great Recession’ as a minor setback.

Compared with others, Australia did very well, as one of only three developed countries to come through 2008 and 2009 with economic growth in both years.¹ We were one of few countries not to experience a banking crisis. We had no need to resort to extreme monetary stimulus, such as the near zero interest rates of Europe and the USA. In fact we came through with a triple A credit

rating. While the USA and many European countries experienced double-digit unemployment rates,² Australia's level of unemployment has remained below 6.0 per cent through the crisis.³

Figure 1



Source: National Accounts – ABS 5206.0

The International Monetary Fund summarised Australia's performance and praised the Government's economic management in its November 2012 report:

*"The Australian economy has demonstrated considerable resilience in the face of the global financial crisis, and is in a strong position to respond to any external shocks...Prudent macroeconomic policy management has supported Australia's strong economic performance and contributed to its resilience in the face of the global financial crisis."*⁴

Even former Prime Minister John Howard, while holding short of giving credit to the Government, said 'when the current prime minister and the treasurer and others tell you that the Australian economy is doing better than most – they are right'.⁵

In most aspects Australia's economic management in response to the GFC was straight from the textbook of Keynesian counter-cyclical management, as applied in previous business cycle downturns. That model posits a return to steady growth as government stimulus gives way to private investment. By 2013 the Commonwealth was into the fourth year of winding back stimulus spending.⁶ Offsetting the Government's fiscal retreat was a strong flow of investment, particularly in the mining sector. All orthodox economic policy, and although subject to partisan and uninformed criticism, all well-handled. (See box, Talking sense on: steering our way through the GFC – good luck and good management).

TALKING SENSE on steering our way through the GFC – good luck and good management

If the International Monetary Fund's positive assessment of the Australian economy were shown to anyone reliant on most of Australia's media, he or she might conclude that the IMF is a propaganda arm of the Australian Labor Party.

There is a gulf between the views of independent economists, such as those employed by the IMF, the OECD, ratings agencies and economic journals, and the views of most Australians. Those independent assessments contrast sharply with the low levels of business confidence in 2011 and 2012.⁷ Nor do they accord with popular perceptions of the Government's economic competence or the performance of the economy.⁸

In fact the Government responded well to the GFC. Its fiscal stimulus was timely and well-distributed. A great deal of publicity was given to minor shortcomings in the homeowners' insulation scheme and the primary school building scheme, but, as independent audits show, these were effective stimulus measures.⁹ With hindsight, it is easy to see how they could have been better executed, but they met the need for a rapid roll out of stimulus spending to maintain employment.

Some have suggested that a more carefully planned but slower set of initiatives would have worked better or that a sharp reduction in interest rates by the Reserve Bank (a monetary response) would have been sufficient.¹⁰ Either alternative, however, would have led to a greater leap in unemployment. Speed was of the essence. Unemployment is costly, not only in lost output but also in the cost of recovery as individuals and economies get back on their feet. The days when labour could be considered an easily-fired-easily-hired commodity are long gone. And low interest rates, besides being slow to take effect, can restart financial speculation. Bankers may like that but economists are circumspect.

Much of the credit for Australia's performance through the GFC goes to the previous Government. They had given the Reserve Bank a large degree of independence and had strengthened regulation of the financial sector. That Government also ran a surplus budget for several years, leaving the incoming Government with an accumulated surplus of \$44 billion. It is a fair criticism that this financial surplus came at the expense of under-investing in physical infrastructure and education, that the Government had eliminated public debt only by allowing private debt to rise to high levels, and that some of it came from selling assets which had been under-valued on the public balance sheet. The surplus, however, provided an opportunity for timely stimulus without spooking jittery financial markets.

There was also an element of good luck. For one thing, the budget surplus was achieved during Australia's longest ever business boom, when Chinese demand for Australia's minerals was growing rapidly. Base metal prices peaked in 2007, just as the American and European economies showed their first signs of stress. Finally, thanks to high immigration and constrained land supplies in our big cities, there was no sudden collapse in housing prices.

If only it were so simple. In fact, the recovery from the GFC has been sluggish – Figure 1 shows that we haven't bounced back as quickly as in earlier recessions. The Commonwealth has had to sustain deficit spending because tax revenue, particularly from corporate taxes, has not recovered.

What happened in 2008 was not simply a normal cyclical downturn. Rather, it was a manifestation of severe stresses in the global economy after over thirty years of unleashing capitalism from its constraints. Even if there are short-term solutions to US and European problems, the underlying trends that gave rise to the GFC and other problems such as climate change remain. (See the introduction for a global and historical account of the lead-up to the GFC – misplaced faith in financial de-regulation, a de-coupling of the financial sector from the real economy, public and private borrowing to finance current consumption, a re-alignment of global economic power, and the fiscal stresses resulting from widening inequality.) While Australia has been able to avoid the problems that beset the USA and the Mediterranean countries, our path through the crisis has not been painless, and many structural weaknesses have been exposed.

STRUCTURAL CHANGE THROUGH THE GFC AND ITS AFTERMATH

A shock such as the GFC exposes vulnerabilities in firms and businesses, and accelerates the processes of structural change. For example, 800,000 more Australians are employed now than in 2008, but behind this total there are different experiences in different industries, as shown in Table 1. While a million new jobs have emerged in growth industries, 200,000 jobs have been lost in others.¹¹

Unsurprisingly, the strongest employment growth by percentage has been in the mining sector, but from a small base. Mining still accounts for only two per cent of employment. The strongest absolute growth has been in human services. There has been a decline in employment in industries subject to international competition, particularly agriculture and manufacturing, due in part to the strong Australian dollar and also to competition for labour and other resources with the mining sector. Unfortunately, most decision makers in industries subject to trade exposure have seen the high currency only as a competitive impediment, and not as an opportunity to import new machinery at favourable prices.

There has been a significant contraction in retailing and print media industries, which have found it difficult to cope with developments in information and communication technology, and the greater trade exposure of service industries generally.

There have been changes in the way Australians work, all in the direction of greater fluidity. Over the five years since 2008 part-time employment has grown twice as fast as full-time employment, and more women than men have joined the employed workforce.¹² Most are part-time workers by choice and three quarters (70 per cent of men, 78 per cent of women) are not seeking extra hours.¹³ Part-time employment does not necessarily mean people are seeking full-time work – for those with a degree of financial security it is a clear choice consistent with lifestyle preferences.

There has been casualisation in some industries, most notably in mining and financial services, and there are reports of more casualisation in some sub-sectors, such as university teaching and some government agencies. Overall, however, there is no ongoing trend to casualisation. Between 1992 and 2002 there was a slight rise in casualisation, but by 2012 the proportion of employees with leave and similar entitlements – the criterion used by the ABS to identify casualisation – was back to where it had been in 1992, at 62 per cent. There was a decline in casualisation among middle age employees, offset by a growth among younger and older employees, who generally find casual work more suited to their needs.¹⁴

Over the same period among those classified as self-employed there has been a movement towards incorporation, suggesting that there is less sham contracting, for only someone seriously in business would bother with the cost of incorporation.

Also, there have been changes in occupation. For example there has been growth of 81,000, or 22 per cent, in women employed part-time as professionals. (A similar number have found full-time work.) Yet employment in occupations classified as 'clerical and administrative workers', 'labourers' and 'sales workers' has been stagnant or declining.¹⁵

These trends show a distinct move in employment to the services sector which is, in part, a consequence of an improvement in Australia's terms of trade.¹⁶ That is, higher exchange rates, and higher national income, both driven by the mining boom, re-direct the economy towards domestic activity. There is a popular perception that the move to service sector employment involves de-skilling, but the strongest employment growth has been in skilled service occupations. This creates challenges for people with few qualifications. As Centre for Policy Development researcher Christopher Stone has found, there are now five low-skilled workers for every low-skilled job available.¹⁷ The skills of our workforce, while improving, have not kept pace with the changing shape of the economy.

Table 1

Employment '000 - 5 years after the GFC				
	Feb-08	Feb-13	Change	% change
Agriculture, Forestry and Fishing	352	317	-35	-10%
Mining	147	264	117	79%
Manufacturing	1 073	954	-119	-11%
Electricity, Gas, Water and Waste Services	116	139	23	20%
Construction	983	1022	40	4%
Wholesale Trade	398	449	51	13%
Retail Trade	1 246	1 220	-26	-2%
Accommodation and Food Services	708	796	88	12%
Transport, Postal and Warehousing	553	606	54	10%
Information Media and Telecommunications	228	219	-9	-4%
Financial and Insurance Services	406	413	7	2%
Rental, Hiring and Real Estate Services	199	196	-2	-1%
Professional, Scientific & Technical Services	790	911	120	15%
Administrative and Support Services	346	397	52	15%
Public Administration and Safety	633	711	78	12%
Education and Training	808	915	107	13%
Health Care and Social Assistance	1 108	1 388	281	25%
Arts and Recreation Services	192	204	13	7%
Other Services	470	455	-16	-3%
Total	10 756	11 579	823	8%

Source ABS 6291.0 (Trend series)

There have also been regional changes. Over the same period employment has risen in mineral-rich Western Australia by 16 per cent and in the Northern Territory by 15 per cent, while growing by only 3 per cent in Tasmania and 5 per cent in South Australia. The effects on growth regions are not all benign, however. Housing prices go through the roof, infrastructure can be overstretched, and there are social disruptions associated with pockets of rapidly rising incomes and with fly-in-fly-out workers. It's also hard for people in other areas to take advantage of unevenly distributed growth; an unemployed worker in northern Tasmania, even if well-qualified, would face a huge relocation expense in moving to Western Australia.

So structural change has not been painless, and those costs and the associated anxiety can lead to hostility towards government policy. Professional economists in governments and in international agencies see broad aggregate figures indicating an easy transition through the GFC, while individuals can experience uncertainty and dislocation. It takes strong leadership by governments to address the understandable resistance to disruptive change.

STRUCTURAL CHANGE IS NOW MORE DIFFICULT

The last great period of structural change, steered by the Hawke-Keating Government, was between 1983 and 1996, when tariffs were lowered, national competition policy was introduced, and financial and labour markets were significantly deregulated. These were hard decisions, but the Government was re-elected four times.

That Government was helped politically by taking a direction in line with the 'free enterprise' platform of the Liberal Party Opposition. Also, unlike the recent Labor Government, it did not face the extreme bias of the Murdoch print media and vituperative hatred from radio shock jocks. These factors have made it much harder to have a civilised conversation with voters about economic reforms such as winding back middle-class welfare, reforming regressive superannuation tax breaks, pricing carbon and investing in infrastructure or education.

Labor itself also bears responsibility for a hostile reaction to economic reform. Particularly since 2010, it has failed to communicate a clear, principled policy agenda. It was even sucked into supporting the idea that a budget surplus is the ultimate goal of economic policy. Hopefully neither the Treasurer nor Shadow Treasurer is so stupid as to believe their own rhetoric on surpluses. Both recently reverted towards a degree of sanity when it became obvious that slavish pursuit of a surplus would come at a great cost to the economy, but the surplus fetish is still a strong part of our political discourse. To the extent that there has been an economic debate, it has had a narrow fiscal focus on spending and revenue rather than structural issues.

Because Labor has failed to engage with the electorate on economic issues, as the reforming Hawke-Keating Government had done, some in the Coalition have had a clear run to reduce the complexity of economic management to simplistic slogans about debt and the supposed burden of taxes. They present a vision of an Australia with no need for modernisation, where every structural reform is a threat rather than an opportunity for positive transformation.¹⁸

In particular the Coalition has been able to present the pricing of carbon

as a 'big new tax' hurting our export industries, rather than as a price signal supporting industry adjustment and modernisation. The current carbon pricing scheme was not born from a strong policy conviction on the need for industry to adjust to an era of climate limits but from a deal with the Greens to form government. Without consistent convictions about the need for the policy, or its role in economic modernisation, Labor has done a poor job of promoting carbon pricing – such a poor job that a large majority of the population vastly overestimate its costs.¹⁹

Change is always painful. The current combination of weak political leadership, a cashed-up mining industry lobby, and lazy media simplifying complex issues misleads us into thinking we can avoid this pain by continuing with business-as-usual indefinitely.

In this view there is no need for structural adjustment. The world, particularly China and India, will always need more of our iron ore, coking coal and steaming coal, which we have in abundance. Don't slaughter the golden goose with silly ideas like a mining tax – the International Monetary Fund may be in favour of it²⁰ but they don't understand our situation. We don't need to waste our money on the National Broadband Network – such infrastructure may be appropriate for a country like Korea but they don't have our minerals. And we don't have to splurge money on education – it's understandable that we should slip back in comparison to countries like Taiwan and Finland because all they have to compete with is their human capital. We have the more solid capital of mineral resources.

Of course this story is not spelled out, but it is there. It's the same vision, slightly adjusted, of a nation that 'rode on the sheep's back' a hundred years ago. That nation was a supplier of simple commodities for cleverer people in other countries to turn into finished goods. That nation, under the benign umbrella of the British Empire, didn't have to concern itself with the world's problems.

But we do have to be concerned with these problems because they are our problems, and unless we develop an economy less dependent on commodity cycles and on fossil fuels we will find our current high living standards to be but a short taste of prosperity.

The economy that can sustain our prosperity will be a more resilient one. It will be able to ride out the fluctuations of the world economy through a combination of deep specialisation in certain industries and suppleness in others. To achieve this the prime asset we need to bring to bear is our human capital. Standing in the way are the legacy ideas that our economic history has planted in our minds.

OUR ECONOMIC LEGACY – IDEAS THAT HOLD US BACK

Resource abundance

Can we break from the idea that our economic fortune must be driven by the fluctuating demand for mineral and energy resources?

Australia has between 15 and 25 per cent of the world's resources of bauxite, brown coal and iron ore and 0.3 per cent of the world's population.²¹ Just over half of our exports are of fuels (mainly coal) and minerals, and exports of these two commodities to East Asia (mainly China) account for about a third of our total.²²

That means we have two vulnerabilities – dependence on a narrow range of commodities and dependence on East Asia. Also, because raw materials fluctuate in price more than finished goods, our export incomes and terms of trade are more volatile than those of countries with an export base higher up the value chain. It also means that the mining industry, by dint of its size, has a strong and strident voice when it seeks to influence public opinion.

Our dependence on coal exports – both thermal and metallurgical – makes us particularly vulnerable. As more countries place a price on carbon, or switch to other energy sources for local environmental or health reasons, there is a chance that we could find ourselves left with some large holes in the ground and idle ports and railroads (this point is also discussed in John Wiseman's Chapter 8).

Jeffrey Sachs of Columbia University, widely regarded as a leading authority on development economics, explains that natural resource abundance can become a curse. Prosperous countries such as Korea, Japan, Singapore and Taiwan are blessed with resource poverty, while countries such as Russia, Zaire, Venezuela and others are cursed with resource abundance. By elevating exchange rates and distorting incentives, natural resource abundance can sap a country of its capacity to develop fully.²³

The oil-rich states of the Middle East are good example examples of this. Apart from the oil industry, and some naturally-protected industries such as health care, the those oil-rich economies are underdeveloped, with high material living standards sustained only by welfare systems and make-work government-funded jobs. Income gained by exploiting natural resources is initially highly concentrated – therefore distributive welfare is the only option. This can undermine incentives to acquire skills and to participate in the workforce, and once the resource is depleted the country has no sustainable tax system. Closer to home, Nauru is an extreme example.

On the other hand, countries such as the Netherlands and Norway have had more success with the influx of newfound income from oil and gas. In the end, the Dutch managed to avoid the so-called 'Dutch Disease'. The consensus among economists is that countries can avoid the resource curse only by treating natural resources as an opportunity to invest through a sovereign wealth fund or domestically in education and infrastructure, rather than as a stream of income.²⁴ In the same way, a prudent person might handle an inheritance as a chance to invest in the future, rather than hoping that a steady stream of wealthy relatives will continue to drop dead.

Australia has steered a path somewhere between Nauru and the Netherlands, thanks to assets we possess which the oil-rich sheikdoms lack. Australia has strong democratic institutions such as an independent judiciary, is not burdened by a religious orthodoxy, has an urbanised population and, despite relative neglect, has developed highly competitive industries in areas outside its natural comparative advantage.

IDEAS WE NEED NOW

Natural resource abundance, besides its obvious benefits, has significant costs. We can manage its costs by investing our gains in assets with lasting value such as infrastructure and human capital.

We should see carbon pricing as an opportunity for industry modernisation, to prepare for an era in which many countries are cleaning up their energy sectors and limiting their carbon emissions.

The rise and fall of manufacturing

Awareness of the economic risks of commodity dependence arose long before Donald Horne wrote *The Lucky Country* – his contribution was more a reminder than a revelation. In fact, concern with our economic structure pre-dates Federation; in its own way the free trade versus protection debate of the late nineteenth century was about commodity dependence.

At the turn of the twentieth century the world's most prosperous country was the UK, but other countries were rapidly catching up, including Australia and Argentina, both rich in natural resources that were exported to the developed countries of Europe.²⁵

Argentina chose to follow the economic orthodoxy of 'comparative advantage' – the idea that a country should concentrate on what it does best. Its per-capita GDP fell from tenth place in the world in 1900 to around 50th place now. Harvard economist Edward Glaeser explains this decline mainly in terms of its failure to invest in its human capital: 'Argentina may have been rich, but it was not that well-educated.'²⁶

Australia took a path of industrialisation. The struggles around the time of Federation were about a choice between a plantation economy, like Argentina's, or a diversified economy, like the UK or the USA. Through tariff protection and mandated wages Australia developed a significant manufacturing sector, which had a well-paid and well-educated workforce by the standards of the time. Our agricultural industries would produce our needed foreign income, while manufacturing, behind a tariff wall, would provide well-paid employment.

The policy, sometimes known as 'The Australian Settlement', was endorsed across the political spectrum – even by the rural-based Country Party, which saw benefits in a well-paid and growing domestic workforce as a market for primary products. Manufacturing was seen as the path to prosperity. There was no notion of specialisation – the more diverse the better. As the policy reached its zenith in the late 1960s we had several car manufactures (a peak of seven), were self-sufficient in clothing and footwear, manufactured typewriters, aircraft, lawn mowers, ships, etc. Manufacturing accounted for more than a quarter of our workforce at its peak in the 1960s.

This was unsustainable, and the reforms of the 1980s saw a huge shakeout of manufacturing, which now employs only eight per cent of our workforce.²⁷ Many of the manufacturing industries which had grown up behind the wall of tariff protection were unable to compete in a more open world.

The outcome of this policy path is that we are now struggling to sustain a competitive manufacturing sector. Table 2 shows the composition of Australia's exports compared with selected other countries with similarly high living standards. What stands out is the low proportion of manufactures in our export base.

Figures such as Table 2 focus our mind on manufacturing. The industry that was once the symbol of our modernisation is now a shadow of its former self. Every closure or downsizing of a manufacturing plant, particularly if it is in the car industry, generates far more headlines than job losses in the service sector.

On the rare occasion that the term ‘industry policy’ enters public discourse, we usually mean the manufacturing industry. That’s why manufacturing still dominates political parties’ industry policy statements. The Labor Party, in particular, still has a strong base of support in the old manufacturing unions.

Table 2

Composition of exports 2011 - selected countries								
	Agricultural products	Fuels and Mining Products	Manu-factures	Other merchandise	Transportation	Travel	Other commercial services	Total
Australia	11%	50%	9%	15%	2%	10%	4%	100%
Canada	11%	29%	39%	6%	3%	3%	8%	100%
Denmark	14%	7%	41%	1%	22%	3%	11%	100%
Germany	5%	5%	73%	2%	3%	2%	9%	100%
Japan	1%	4%	75%	5%	4%	1%	10%	100%
Korea	2%	10%	73%	1%	6%	2%	7%	100%
Norway	5%	58%	12%	3%	8%	3%	11%	100%
Saudi Arabia	2%	78%	17%	0%	1%	2%	0%	100%
USA	8%	9%	47%	8%	4%	7%	17%	100%

Source: Derived from WTO profiles

But this misses the point. Headline numbers on manufacturing no longer tell us much about a country’s stage of development. The world has changed, and manufacturing has changed with it. Technologies are progressively automating the physical transformations – cutting, sewing, bending, machining, milling, casting etc – that once defined manufacturing. These are becoming low-cost operations as machinery tumbles in price. More opportunities for innovation, adding customer value and productivity gains can be found in activities once considered peripheral to manufacturing, such as product and process design, distribution, and customer relations. For all but the simplest products, most value lies in their information content. Manufacturing is just one step in the value chain, and in some industries, such as music, there is now no transformation of any physical product.

Similarly, economies of scale, which were once seen as the only path to manufacturing competitiveness, are giving way to flexible manufacturing techniques.²⁸ Today fewer industries can be operated only out of large establishments.

The old manufacturing model was one in which physical capital was expensive and labour was comparatively cheap. Our thinking, still focussed on physical capital, distracts us from a whole new realisation about the meaning and role of capital. Capital in the form of a row of machines or a fleet of trucks is less important than the capital in the form of ideas, skills and education, capacities to communicate and to work with others – human capital, in other words.

It is the knowledge worker who is emerging as the capitalist of our day but we are a long way from recognising this.²⁹ Of course there are still industries such as petroleum refining where physical capital and scale economies are important, but the list of such industries is shrinking.

Prosperous high-wage countries that have retained strong and competitive manufacturing sectors have done so by making use of their human capital.

One approach that works is deep specialisation. Germany and Switzerland, for example, have decades (in some cases centuries) of competence in machine tools (the equipment which has fuelled China's industrialisation), food technologies, chemicals, pharmaceuticals and specialised textiles. Because it takes years to become proficient in such industries, they are reasonably immune from short-term disadvantages, such as adverse exchange rate movements. Moreover, their investments are not just in physical plant but also in their customer relationships. The Mercedes dealership network in Australia is just as important an asset as their factory in Bremen.

This stability also means such firms have a strong incentive to develop permanent work relations, not only between firms and their employees (if the two can be separated) but also between firms and their suppliers and customers.

These industries are generally high-value-added concerns, where price is less important to customers than qualities such as design, reliability or durability.

The other path is nimbleness, the capacity to move in and out of different activities. California's Silicon Valley is an example of a cluster of entrepreneurs whose output defies classification by any of the old criteria.

At first sight it may seem that a country must choose one or the other, but they can co-exist. Deep specialisation is quite different from the idea that countries should stick to a limited range of activities that they do best – the old theory of 'comparative advantage'. Both deep specialisation and nimbleness can involve extensive diversification, not as a path to self-sufficiency and isolation behind trade barriers (an idea prominent in our earlier protectionist era), but as one way to make the most of open integration with the global economy. A country may develop many niches of specialisation, trading with countries with similarly specialised niches. Germany, for example, still has clothing and footwear industries, but they are quite different from the clothing and footwear industries in China.

In fact the most prosperous countries are those with the most complex economies, and they produce the greatest diversity of goods and services traded on global markets. It is easy to imagine that economic complexity emerges from prosperity, but there is strong evidence that complexity itself is a major contributor to growth.³⁰

Rather than thinking about manufacturing and its products, think about the activities people undertake in adding customer value. Some activities involve transformations to physical products but there are many other ways to apply skills to add value.

Policies directed at developing manufacturing for its own sake are bound to fail. Those that enable businesses to adapt to big changes and to develop strong positions in global value chains are more likely to be effective for all businesses, regardless of their sector.

Cost-based competitiveness

Our dependence on commodity exports has influenced our thinking in another way that is not conducive to economic modernisation. People often criticize our commodity industries by representing them as simple ‘dig it up and sell it’ activities. That’s an unfair criticism, based on ignorance of the sophisticated skills and technology involved in modern mining and agriculture. Australia is a world leader in mining and agricultural technologies, and is highly competitive in those industries, even though we compete with producers with lower labour costs and hidden production subsidies. While we have a strong competitive edge in terms of reliability, security and political stability (absent in many mineral-rich countries), ultimately we still have to be efficient producers.

In general commodities don’t allow for much product differentiation, and even when there is some differentiation any price premium or discount is closely tied to a base price. Commodity producers are price-takers. In such industries the only way to return a profit is to focus on cost reduction – labour costs, energy costs, the costs of finance, regulatory compliance and taxation obligations. Even when there is some degree of further processing – for example bauxite into alumina into aluminium – the finished product is still a commodity which is why, in the case of aluminium, energy costs are of such concern.

Similarly, because most of our tariff-protected manufacturing industries were labour-intensive, the managers and owners of these firms were very conscious of labour costs. Towards the end of the era of the tariff era even effective assistance rates as high as 220 per cent left clothing manufacturers exposed to competition from countries with low labour costs.³¹

Cost-based competition contrasts with competition based on commanding a price premium for a sought-after product – as described above. Australian businesspeople complaining about labour costs may be surprised to learn that we work many more hours than workers in other industrialised countries. We are still working harder, not smarter.³²

The obsession with labour costs has shaped thinking on productivity at the expense of the more fruitful pursuit of skilled, well-managed workplaces (as covered in Roy Green’s Chapter 5).

Cost-based competition will always be a struggle. Instead focus on providing so much customer value through products or services that they can command premium prices. Overcome a ‘price-taker’ mentality, conditioned by commodity dependence.

Conflicting interests - echoes of the class struggle

As in every industrialised country, Australia has a history of labour-capital conflict, dating from the nineteenth century. An Australian peculiarity is that the conflict was played out not in the industrial sector but in the pastoral industry, where divisions and interests were clearly delineated; there were not many win-win opportunities in a woolshed.

There is a long path from such a model to one in which economic activity is seen as a venture where people come together in a variety of ways – some contributing finance, some contributing technical skills, some contributing organisational ability, and some contributing entrepreneurial flair – to create

wealth and to share the proceeds. That is probably the only model of capitalism which can command community-wide legitimacy and political support, and which can gain the full contribution of 'knowledge capitalists'.

We have come some way along that path. As Max Ogden writes 'class struggle assumes there are two classes in combat and that is currently not the case, nor has it been in Australia for at least a couple of generations'.³³

Other aspects of the old model live on however, and we have not come as far along that path as those northern European countries where there is a greater awareness by all stakeholders of their shared interests.

We still have the industrial relations club with institutions representing employer and employee interests – a binary division that has long outlived its relevance. The debate on productivity, as Roy Green points out in Chapter 5, is still focussed on labour costs to the exclusion of broader notions of productivity. Our public discourse is still about employers and employees or bosses and workers – a division reinforced in many firms and industries by the application of different economic rules: the executive bonus is seen as a legitimate reward for virtuous effort, while the workers' pay is a threat to competitiveness. And, as Lisa Heap points in Chapter 6, there are those that exploit the most vulnerable to gain competitive advantage.

The more liberal, inclusive model is not free from potential injustices. The old binary model had developed clear means of resolving conflicts through labour relations laws, and industry and enterprise agreements ensured that all workers got a fair deal. When there are more stakeholders with different power, different interests and different contractual relationships there is the risk that those who are weaker at the bargaining table will not get a fair share of rewards. The ill-advised WorkChoices experiment illustrated the need to provide a backstop for those vulnerable to exploitation.

And in those sectors where there is likely to be a deal of ongoing change, there is the possibility that the benefits of economic dynamism may come at the cost of leaving many stakeholders, including wage employees and small business contractors, bearing an undue share of the consequences of inevitable corporate failures.

Economic activity is about creating wealth and sharing the proceeds in line with contributions.

As economic relationships become more complex, we may need new and stronger arrangements to protect against exploitation and unfair allocation of risk.

Give me a job

As pointed out above, the traditional model is of employers, with all the important resources on their side, who give jobs to subservient employees. Only through strong collective action or strictly enforced legislation can fair wages and conditions be assured.

But the job, as we know it, may be slowly giving way to other, more fluid forms of economic relationships. Not in all industries – traditional hierarchical forms of employment are still needed in industries where quality and process control are crucial. It will be some time before we see freelance air traffic controllers or uranium miners.

Terms such as ‘give us jobs’, and notions that firms and industries ‘create jobs’ suggest that a job is something dispensed paternalistically by a private investor when given the right incentives, or by a government with a strong mandate, rather than a contracted economic exchange with mutual gains. Public sector unions, when threatened with redundancies, sometimes campaign on the basis of lost jobs, rather than on the basis of cutbacks in public services.³⁴

But, as noted above, the old model of expensive physical capital and cheap labour is giving way to other arrangements. As a personal experience, I once worked in a firm where eight people were employed to keep a computer (an IBM 360) running: they were adjuncts to the computer’s productivity; now a computer is an adjunct to an individual’s productivity.

Although information technology provides the clearest example of such opportunities, the same goes for many micro businesses, including technical trades. That’s why the proportion of people classified as ‘owner managers of incorporated businesses’ has risen from 4.9 to 6.9 per cent of the employed workforce over the last twenty years³⁵

There are two views on this development. One is that self-employment leaves people open to exploitation. People lose the rights and benefits that come with permanent employment, without offsetting advantages. Some even go so far as to say that all who provide labour services should have a set of entitlements, without any option to contract out of them. The polar opposite view is that workplace flexibility is an unmitigated good, and should be encouraged. There are views that costs such as sick leave should be borne by the community rather than by corporations. And there are views that workplace flexibility is good provided that the power to make flexible arrangements rests more with the employer than the employee; that was the essence of the ill-fated WorkChoices idea. There is no one size fits all set of arrangements. Some people thrive in a dynamic environment, while others give of their best when they can develop skills and expertise in secure employment. Some can handle the complexity of self-employment while others need to work within formal organisational structures. Flexibility has its benefits in a rapidly-changing world, but it comes at the cost of deep specialisation, which can provide enduring competitive advantage.

We need to come away from polarised views about work arrangements – views that stem from the old class struggle model of economic activity. We would incur a great cost if we stifled opportunities for flexible forms of self-employment and similar arrangements. But, in a world where low skill jobs are disappearing, there is likely to be an excess of people seeking such work – people lacking skills and qualifications, and some lacking the negotiation, language and presentation skills people need if they are to look after their own interests. There will always be a need for forms of protection for such people. The best long-term policy is to invest in education and skills, to ensure that the number of people in such situations is as small as reasonably possible. Public policy should avoid the development of an underclass.

Think of economic activity more broadly than the job. Don’t think of firms or governments giving people jobs. Productive employment emerges in an economy where all people’s capabilities are developed and all have opportunities to contribute.

FAST FACTS: Germany's Mittelstand companies

Much of Germany's economic success can be traced to its mid-sized companies, known as Mittelstand companies -- in a band of turnover between €1.0 million and €50 million. Almost all are family owned and most have very conservative financial structures. Their owners view their prime responsibility as the long-term prosperity of their firms. In Germany there is not a strong culture of developing family enterprises with a view to selling the companies to a large firm.

While most countries have a large number of companies in this band, the German Mittelstand companies stand out for their prominence in the economy. They account for a large share of manufacturing production, particularly in mechanical, electrical and chemical engineering, and make a significant contribution to exports.

In general, they have engaged in deep specialisation, focussing on excellence in a limited number of product lines. They keep abreast with, and often lead, product and process innovation. Many are at the forefront of energy efficiency. They are the major players in Germany's apprenticeship system. German school leavers tend to either go on to university or to a formal apprenticeship arrangement with a Mittelstand firm.

The Mittelstand sector thrives in a culture that values skills of all types (Germans respect trade skills no less than they respect formal academic qualifications), where there is a large degree of trust between employers and employees (allowing for a great deal of flexibility) and which has realistic expectations of long-term investment returns. It is helped by government policies which support innovation, which maintain a high standard of public services with a solid tax base (35 per cent of GDP), and which delegates a large proportion of policy responsibility to Länder (state) governments.

Public policy has been directed at helping preserve the human capital in Mittelstand companies. In the GFC, as in other recessions, the Federal Government supported Mittelstand firms effectively by subsidising the costs of retaining their workforce (workers, too, took a pay cut). Such support was conditional on firms undertaking training. As a result, as Germany pulled out of the crisis, Mittelstand firms made a rapid recovery, because their human capital was intact.

Expectations of profit

Another impediment to our thinking is the relatively easy run Australian businesses have had over 225 years. Australia's economic history has involved a struggle between those who seek to exploit opportunities to get rich quick (or to hold on to what they have gained), and those who seek the more economically orthodox path of prospering through innovating and risk-taking. The former have generally won, and have built political systems to ensure that they keep on winning. For some in small business the only policy interest is to see a Coalition Government in office, not out of concern for their companies but rather for the owners' opportunities to keep workers' wages low and to minimise taxes on proprietors' personal drawings through mechanisms such as family trusts.

From the time of the NSW Rum Corps through to today's protection of retail pharmacies there have been opportunities to benefit from government protection against competition. The most enduring example was tariff protection. There have always been good returns from what economists call 'rent seeking' – finding a source of income protected from the discipline of competition. Why bother with taking the risks associated with innovation and seeking new markets when it is easier to gain some privilege from government?

Ever since Edward Hargraves found specks of gold near Bathurst in 1851 we have been seduced by the idea of high returns from mining. Many investors have made extraordinary profits on speculation in mining companies and on privileged access to share floats. (As a student in the 1960s I bought my first car on the six month capital gain on a \$25 investment in a mining firm.)

Our high population growth has provided a growing market for corporations, who, even if they do nothing other than maintain their market share with existing products, can report ever-growing sales and profits. And it has richly rewarded property speculation: nothing beats a rapidly-growing urban population for an opportunity to make a speculative profit. Over the 25 years to 2010, residential property investment provided superior returns to all other classes of investment,³⁶ aided by generous tax concessions that allow double-counting of some expenses for tax purposes.³⁷ Until recently people enjoyed a sense of easy growth in wealth as the market values of their houses rose. (In reality it was almost all asset price inflation, but people behaved as if it were real growth, and borrowed against the illusory assets.)

In fact, over the hundred years to 2000, Australia achieved the second highest equity returns out of 16 prosperous countries, pipped only by Sweden, another country which enjoyed the benefit of rich natural resource endowments and the absence of armed conflict on its soil. Our annual returns over that century were at least one per cent higher than those enjoyed in the USA and the UK, and more than twice the returns enjoyed in Germany.³⁸

We have become conditioned, therefore, to expect high returns, which makes it hard for ventures offering lower and slower returns to attract capital. This expectation works against industries that have long lead times before they become well-established, such as mechanical, electrical and chemical engineering, where the accumulation of skills and market reputation takes many years. As noted above, such enterprises have some capacity to ride out business cycles and exchange rate fluctuations. (See the box on Germany's *Mittelstand* companies for a contrasting industrial culture.) The expectation of high returns also shapes our thinking on public investment, which generally shows solid but not spectacular returns. We often hear the claim that public sector investment crowds out private sector investment. In reality, the converse is true.

For our economy to be resilient and prosperous over the long term we need a more realistic notion of investment returns, and an industrial culture focussed more on wealth creation than profit extraction.

We must distinguish clearly between the interests of the stakeholders of existing businesses and Australia's longer-term needs. Public policy should support long-term, patient investment.

Tying it together - human and other capital

A central theme of these ideas – understanding the risks of resource dependence, breaking from the old physical product obsession, thinking about customer value and not just cost, ridding ourselves of the class struggle model of economic activity, thinking beyond the ‘job’, and developing realistic ideas about profit – is that we need to recognise the value of human capital.

That’s not a novel idea – the statement in corporate reports ‘our people are our greatest asset’ is now an aged cliché. But it has not yet shaped our public debates and public policy. We still think of capital in terms of hard physical assets, be they bits of cast-iron machinery or iron ore awaiting shipment to somewhere else to be made into cars or railroad tracks – what Barry Jones once described as things that hurt when we drop them on our toes. We pay far too little attention to our human capital. We still see education expenditure as an expense, or even as a welfare entitlement. And we pay even less attention to our environmental, social and institutional capital, because they aren’t easily brought to account.

The unifying idea we need is a broader notion of capital, one that brings to our public debates an inclusive notion of wealth. Government policy alone won’t achieve this, but we can make sure that public policy is influenced by and is not inimical to such thinking.

Smart things to do soon

Public policy should start with a clear set of interrelated objectives, aimed at rectifying existing weaknesses and taking advantage of emerging opportunities.

Our overarching goal should be the development of a more resilient Australian economy – one that can hold its own in a world where there is a rapid shift in economic power towards Asia, particularly in view of its investment in human capital; a world where economic shocks are to be expected; and where problems of natural-resource scarcity are becoming far more prominent. Even if there is ongoing demand for mineral resources, we should build an economic structure that would perform well without such windfalls.

The general policy environment, and not just some industry policy, should support this transformation. Policies should align economic incentives with contributions, discouraging rent-seeking and welfare dependence. They should aim to ensure that people’s capabilities are fully developed through opportunities for social inclusion and education, so that fairness in distribution is achieved in the first instance through economic participation.

Public policy should aim to steer Australians away from a culture of entitlement. The term is often used to disparage those who depend on social security benefits, but the culture of entitlement extends to expectations of middle and upper-class welfare and expectations of privilege for certain firms and industries.

Public policy should be concerned with the productive health of all assets, including not only physical capital, but also human, environmental, social, and institutional capital. For example, the idea that there is a trade-off between economic progress and preserving our environmental assets should be given a decent burial.

Such a broad set of objectives could be realised through a wide range of policy pathways. Specific policy proposals should be subject not only to widespread public debate, but also to evaluation by bodies such as the Productivity Commission.

One possible set of policies could be:

- To replace industry policy and related portfolio arrangements with a broader human capital policy. The recommendations of the 2008 Cutler Review would be a good starting point.³⁹
- To invest heavily in education at all levels, but with emphasis on those most in need, to lessen the risk of developing a welfare-dependent underclass. The Gonski proposals are a starting point (discussed further in Chris Bonnor and Jane Caro's Chapter 2). Foreign language teaching and cultural awareness are crucial, because competitiveness is increasingly based on transactions with a high service content. Public funding for tertiary education funding should be increased, subject to rigorous teaching and assessment standards, and should cover both university and non-university education. TAFE education should be reformed in order to engender higher respect for trades skills, so that trades become more attractive to high-achieving students.
- To extend incentives for our industrial base to shift from heavy natural resource dependence and to lighten the economy's carbon footprint and water use. This is necessary to prepare for a world in which pollution reduction and resource efficiency are increasingly important sources of competitive advantage. Such incentives should mainly take the form of market measures that account for environmental externalities. Apart from policies to reduce domestic greenhouse gas emissions, there should be measures to reduce Australia's exports of fossil fuels, including steaming coal, coking coal and natural gas, as outlined in Chapter 8 by John Wiseman.
- To invest in infrastructure, particularly in surface transport – urban public transport, interstate highways, freight and passenger rail systems – and in restoring degraded ecosystems and water systems. The National Broadband Network should be accelerated so that we can access its productivity and innovation benefits sooner rather than later. We should be ready to pay for the demands imposed by climate change. The destructive weather events of the last few years are a small foretaste of the cost of repairing and protecting public infrastructure. The need for public funding may be much greater if the private costs extend beyond the capacity of private insurance firms.
- To maintain a strong social wage through universally shared, high quality education and health care systems. Personal security in these domains allows people to bear more of the risks associated with market capitalism. They are also necessary to ensure a degree of social solidarity. Measures which encourage self-exclusion by the well-off, particularly two-tier health and education systems, should therefore be discouraged. This does not rule out means based contributions for shared services, however.
- To redesign the tax system to remove distortions which favour speculation over long-term productive investment, which favour particular industries, and which favour distribution over re-investment of profits. In particular the ill-advised 1999 changes to capital gains taxation should be reversed, the mineral resource rent tax should be implemented as originally proposed, a small financial transaction tax (a Tobin tax) should be introduced to stabilise the currency and financial markets, and most of the Henry Review recommendations should be implemented. (See Chapter 1 for more on tax.)

FAST FACTS: the reforms of the 1980s

When Australia was confronted with the shocks of the 1970s our response was initially inelegant – the Whitlam Government, like governments around the world, was caught by surprise, and the incoming Fraser Government was nervous about economic reform. The prevailing wisdom was that reducing industry protection was impossible – there were too many identified losers, on both sides of politics, and the benefits would be too diffuse and too slow in coming.

The Hawke-Keating Government had to confront that prevailing wisdom. Public servants, the press and the political commentariat all believed it was impossible to take on the united opposition of businesses and unions. Many senior public servants were at best sullen in their enthusiasm for tariff reform; others did all they could short of outright insubordination to thwart the Government's plans, and others took the view that they should protect the Government from their own foolhardiness.

But against these odds the Government succeeded. They opened new channels of advice, such as the Economic Planning Advisory Council which gave more weight to voices other than those of established lobbyists and risk-averse public servants. They exercised quiet leadership, carefully managing the pace of change, and often letting others take credit for their initiatives. For the most part they held back on implementing policies until they judged that those affected could cope without too much pain.

CONCLUSION

One may look at such a list of policy demands and consign it to the politically impossible basket.

But we have been through economic transformations in the past – the Federation settlement described above, rapid industrial growth during and after the Pacific War, and the opening of the economy to international competition in the Hawke-Keating years (see box).

Economic reform is difficult. There are always those who stand to lose some unearned privilege. There is usually a larger group who, while benefiting from reform, can succumb to fear campaigns by those seeking to retain privilege or to discredit the government. That's why skilled leadership is crucial.⁴⁰

Of course the rent seekers will squeal, and will use a small part of their unearned fortunes to mount strident publicity campaigns. But a politically astute government should be able to use such protests as a chance to demonstrate their own determination not to appease vested interests. Perhaps the strongest idea we need now is the old-fashioned notion that we elect governments to represent our collective interests.

CHAPTER SEVEN END NOTES

- 1 Of the 34 countries in the OECD, the only countries that sustained economic growth over 2008 and 2009 were Australia, Israel and Poland. In that period Israel technically had a 'recession' with two consecutive quarters of GDP decline. OECD, Quarterly National Accounts MetaData: Quarterly Growth Rates of real GDP, change over previous quarter, <<http://stats.oecd.org>>.
- 2 America's unemployment rate peaked at 10.0 per cent in October 2009. See Bureau of Labor Statistics database, <<http://www.bls.gov>>.
- 3 Unemployment peaked at 5.9 per cent in June 2009, Australian Bureau Statistics, 'Labour force, Australia', cat. no. 6202.0, July 2013.
- 4 International Monetary fund, Survey Magazine: Countries & Regions, November 15 2012, <<http://www.imf.org/external/pubs/ft/survey/so/2012/car111512a.htm>>.
- 5 Judith Melville, The Daily Examiner, 13 May 2013, quote from a speech to the Mortgage and Finance Association of Australia delivered on 10 May 2013 <<http://www.dailyexaminer.com.au/news/letters-howards-words/1871198/>>.
- 6 Budget papers show Commonwealth spending, as a per centage of GDP, peaking at 26.0 per cent in 2009-10, and falling to .4 per cent in 2015-16, while revenue slowly rises from its trough of 22.1 per cent of GDP in 2010-11 to 25.2 per cent in 2016-17. See <<http://www.budget.gov.au>>.
- 7 The Roy Morgan survey on business confidence shows a dramatic fall in early 2011, and only a slow recovery, while the NAB survey shows a steady fall over 2011 and 2012. Both surveys show some improvement in early 2013. See <<http://www.roymorgan.com/news/press-releases/2013/2011/>>.
& National Australia Bank, 'Monthly Business Survey', February 2013, <<http://business.nab.com.au/wp-content/uploads/2013/03/monthly-business-survey-february-2013.pdf>>.
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- 11 Australian Bureau of Statistics, Labour Force, Australia, Detailed, Quarterly, cat. no. 6291, 2013.
- 12 Australian Bureau Statistics, 'Labour force, Australia', cat. no. 6202.0, July 2013.
- 13 Australian Bureau of Statistics, 'Underemployed Workers, Australia', cat. no. 6265.0, September 1997.
- 14 Data from Australian Bureau of Statistics, Labour Market Statistics, cat. no. 6105. The ABS identifies those without leave or similar entitlements as casual employees. A special survey, published by Australian Bureau of Statistics, Measures of Australia's Progress, cat. no. 1370, found that a majority of casual employees younger than 25 and older than 55 were not seeking non-casual work.
- 15 Australian Bureau of Statistics, Labour Force, Australia, Detailed, Quarterly, cat. no. 6291, 2013.
- 16 For an explanation of the mechanism, see Productivity Commission Chairman Gary Banks, 'Australia's mining boom: what's the problem?', address to the Melbourne Institute and the Australian Economic and Social Outlook Conference, 30 June 2011.
- 17 Christopher Stone, False economies part 2: doing more with less , Centre for Policy Development, May 2013, <<http://cpd.org.au/wp-content/uploads/2013/05/False-Economies-Part-2-Doing-less-with-less.pdf>>.
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- 38 Elroy Dimson, Paul Marsh & Mike Staunton, Triumph of the Optimists: 101 years of global investment returns, Princeton, Princeton University Press, 2002. Australia's real average domestic return was 7.5 per cent, or 6.9 per cent when expressed in \$US terms.
- 39 T Cutler 'Venturous Australia: building strength in innovation', report of the Review into the National Innovation System, Canberra, Australian Government, 2008.
- 40 Ron Heifetz, Professor of Leadership at Harvard's Kennedy School, would describe Australia's need to develop a more resilient economy as an 'adaptive challenge'. For a description of his model, see Ronald Heifetz, Leadership Without Easy Answers, Cambridge, Belknap Press of Harvard University Press, 1994 and Ronald Heifetz & Marty Linsky. Leadership on the Line - Staying Alive through the Dangers of Leading, Boston, Harvard Business School Press, 2002.

CHAPTER EIGHT

Climate change: reconnecting politics with reality¹



by John Wiseman

INTRODUCTION

The unprecedented combination of heat waves, bushfires, storms and floods experienced by Australians during the ‘angry summer’ of 2012-2013 provided one more powerful reminder of the real and immediate consequences of the climate change emergency now hurtling towards us.²

Disaster response researchers have learned that effective responses to emergencies like fires, floods and cyclones depend on recognition that swift, decisive action is:

- necessary and urgent (the emergency is real and heading our way);

- possible (there is a clear course of action which will significantly reduce the danger); and
- desirable (the benefits of action clearly outweigh the risks and dangers of inaction).³

The case for decisive climate action by Australia is clear and strong on all three counts:

- Evidence of the likelihood and risks of global warming beyond 4 degrees continues to mount. As International Monetary Fund Managing Director Christine Lagarde bluntly notes, ‘unless we take action on climate change future generations will be roasted, toasted, fried and grilled.’⁴
- The technical solutions needed to reduce greenhouse gases at a speed capable of preventing catastrophic climate change are now well known. Governments as politically diverse as Germany and the UK, California and China, Denmark and South Korea are all acting swiftly to implement comprehensive decarbonisation strategies.⁵
- As momentum towards a decarbonised global economy continues to build, so too do the economic and social opportunities for Australia of being a ‘first mover’ in the transition from fossil fuels to renewable energy and energy efficiency.

Australia needs political, community and business leaders with courage and vision to lift their gaze beyond short-term political and commercial advantage and begin an honest conversation about the full range of climate risks and opportunities.

The greatest risk and deepest concern is that we are leaving an unliveable world to our children and to future generations. At the same time, Australia is also running the risk of missing the boat as the rest of the world begins the journey away from coal and oil based economies, towards a future fuelled by renewable energy and sustainable consumption.

THE SCIENCE IS SETTLED: THE RISKS ARE CLEAR

When daunted by the political difficulty of rapid climate action, it’s important to go back to the science and remember why we all started paying attention to the problem of climate change in the first place. No matter how tough the politics of climate action seem today, it’s nothing compared to the likely social, economic and environmental consequences of inaction.

Surveys of the world’s most eminent earth scientists and peer-reviewed climate science publications continue to agree that ‘the world is warming and human emissions of greenhouse gases are the primary cause.’⁶ Edward Davey, UK Secretary of State for Energy and Climate Change recently summarised the current state of climate science in the following way:

‘Two hundred years of good science - teasing out uncertainties, considering risk - has laid the foundation of what we now understand. It screams out from decade upon decade of research. The basic physics of climate change is irrefutable. Greenhouse gases warm the atmosphere and cause changes to the climate. Human activity is significantly contributing to the warming of our planet.’⁷

The most up to date, robust scientific evidence shows that the window of opportunity for keeping global warming below 2°C is rapidly closing and continuation of current emission trends is making global warming above 4°C more likely. In addition to the vast majority of scientists, many mainstream economists and business leaders now accept this conclusion:

- Lord Nicholas Stern, January 2013: 'Looking back, I underestimated the risks. The planet and the atmosphere seem to be absorbing less carbon than we expected and emissions are rising pretty strongly. I now believe we are on track for something like four degrees.'⁸
- PricewaterhouseCoopers, *Too Late for 2 Degrees*, December 2012: 'Governments' ambitions to limit warming to 2°C appear highly unrealistic.'⁹
- World Bank, *Turn Down the Heat*, November 2012: 'Even with the current mitigation commitments and pledges fully implemented there is roughly a 20 per cent likelihood of exceeding 4°C by 2100. If they are not met warming of 4°C could occur as early as the 2060s.'¹⁰
- Fatih Birol, Chief Economist, International Energy Agency, May 2011: 'It is becoming extremely challenging to remain below 2 degrees. The prospect is getting bleaker. That is what the numbers say.'¹¹

Global warming over 4°C would have potentially disastrous consequences for Australia's environment, economy and the health of our population.¹² Professor Jean Palutikof, Director of the National Climate Change Adaptation Research Facility notes that an Australia 4°C warmer than today would be a very different place. 'It would just be too unpleasant to be out of doors. People would be living far more enclosed lives. It would be a heavily energy-dependent existence as you have to cool all of those spaces that you put people into. You would have to be running your air-conditioners as a matter of course.'¹³ Temperature rises above 4 degrees are also likely to lead to a rapid acceleration in the extinction of Australian flora and fauna, with habitats such as Kakadu projected to shrink by 80%.¹⁴

Professor John Schellnhuber, Director of the Potsdam Institute for Climate Impact Research, provides a stark assessment of the difference between a rise of two and four degrees. 'The difference,' he says, 'is human civilisation. A 4°C temperature increase probably means a global [population] carrying capacity below 1 billion people'.¹⁵

THE HOT, HARD FACTS: WHAT'S REQUIRED TO AVERT CLIMATE CATASTROPHE

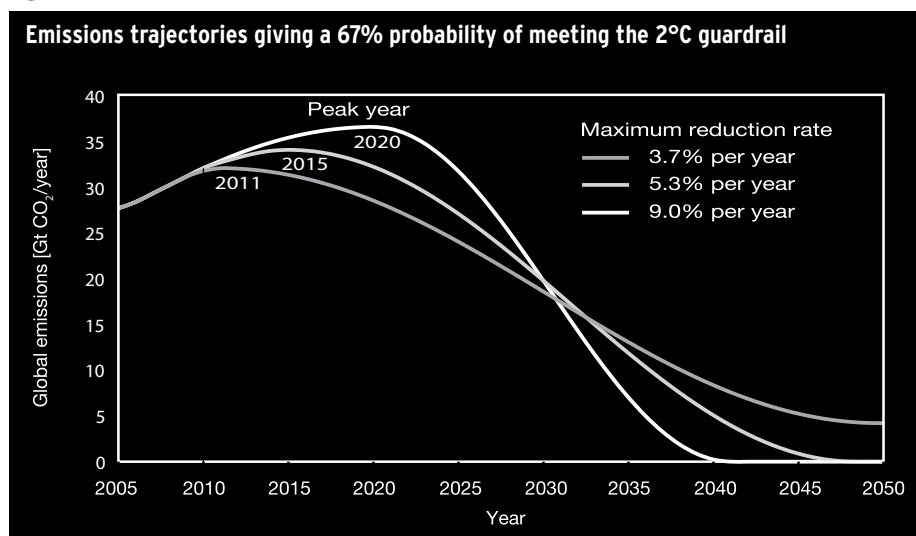
'Limiting global warming below 2°C – or even to below 1.5°C remains technically and economically feasible, but only with political ambition backed by rapid action starting now. If nothing more is done except the current pledges, costs would be much higher to reach deeper reductions necessary later, and/or the damage from climate impacts would be far greater.'

*Climate Action Tracker 2012*¹⁶

Recent analysis of emissions pathways indicate that the minimum goal we need to be aiming for is to ensure that global emissions peak by 2020.¹⁷ Between 2020 and 2050 a rapid decline to zero net emissions combined with carbon

sequestration will then be needed to achieve the goal of returning atmospheric CO₂e to 350 ppm or below (see Figure 1, which shows three options for emissions reductions pathways that would give the world a 67 per cent chance of keeping warming below 2 degrees).¹⁸

Figure 1:



Source: German Advisory Council on Global Change 2012¹⁹

Many eminent climate scientists argue that we must reduce emissions much faster, given the increasing evidence that rising global temperatures are already beginning to trigger climatic ‘tipping points’ such as the melting of the Arctic sea ice and the release of methane gas from the Arctic tundra.²⁰

The potential for climatic tipping points to drive unpredictable changes in climatic conditions and extreme weather is one crucial reason why climate change is so different to other policy challenges, which can often be dealt with through more incremental responses. If you misjudge the demand for public school places one year you can increase the funding next year. If the Reserve Bank cuts interest rates too much it might create a credit bubble, but it can easily raise rates again. The consequences of getting it wrong the first time and right the next time may be painful, but they are reversible. Climate change is a fundamentally different kind of ecological and political challenge. Once we hit the climate change brick wall, going back will either be impossible or prohibitively expensive.

The escalating risk of triggering climatic tipping points is why so many climate scientists argue for an emergency speed, ‘wartime’ timetable and strategy for achieving net zero emissions much earlier than 2050.²¹ It is also why an increasing number of mainstream organisations and businesses argue that the achievement of emission reductions at the necessary scale and speed will require transformational rather than incremental change. PricewaterhouseCoopers, for example, suggest there is a need for ‘much more ambition and urgency on climate policy, at both the national and international level. Either way, business-as-usual is not an option.’²²

Business as usual is not an option

Unfortunately the current climate change policies of Labor and the Coalition reflect neither ambition nor urgency. Their improvement on business as usual is incremental, not transformational.

As noted in Table 1 the current Australian Government emissions reduction target involves a unilateral commitment to reduce emissions by 5 per cent compared with 2000 levels by 2020. This target could potentially be increased to 15-25 per cent depending on commitments and action by other countries. There is also a commitment to reduce emissions by 80 per cent by 2050, although the pathway to achieve this goal remains unclear.

Table 1

Overview of climate change policies of Australian political parties (May 2013) ²³			
Policies	Labor	Coalition	Greens
Emissions Reduction Target	Unilateral 5% cut from 2000 levels by 2020. Possible 15-25% reduction depending on action of other countries. Will be guided by, but not necessarily beholden to review by Climate Change Authority of emission reduction targets and trajectories. Commitment to reduce emissions by 80% by 2050.	Unilateral 5% cut from 2000 levels by 2020. Has not officially reversed its earlier position of possible 15-25% reduction if other countries act. Would scrap Climate Change Authority. No 2050 emissions reduction commitment.	Raise target to 25-40% cut by 2020. Net zero emissions 'within a generation.'
Key mechanism for achieving emissions reduction target	Shift from \$24.15/t fixed price to Emissions Trading Scheme (ETS) with floating price by July 2014. Australian carbon price to be pegged to prices set through the European Union carbon trading scheme (currently around \$7/t). Australian Treasury forecasts predict a 2015-16 price of around \$12/t.	Committed to immediate repeal of carbon tax/ETS. Proposes a 'Direct Action' approach to emissions reduction. A \$3 billion 'Emissions Reduction Fund' is to pay for 'lowest cost' carbon abatement initiatives.	Ongoing support for robust carbon price as one component of a broader, integrated emissions reduction package.
Renewable energy initiatives	Renewable Energy Target (RET) of 41,000GWh by 2020. Ongoing support for smaller scale Renewable Energy Scheme encouraging investment in rooftop solar. Budget savings to offset cost of early shift to ETS include significant cuts to funding for Clean Technology Investment Program. Has not yet announced policy on national feed-in tariff.	Ongoing support for RET, subject to review in 2014. Proposes \$100 million per year to support expansion of solar PV energy with target of additional 1 million solar homes by 2020. Opposes national feed-in tariff.	Proposes extending RET and lifting target to 90% by 2030 and 100% as soon as possible - no later than 2050. Propose national feed-in tariff plus other targeted incentives to support investment in large-scale solar thermal power plants.

Overview of climate change policies of Australian political parties (May 2013) ²³			
Policies	Labor	Coalition	Greens
Clean Energy Finance Corporation	Clean Energy Finance Corporation (CEFC) will drive investment of \$2 billion a year over 5 years to support renewable energy and low emission projects	Committed to scrapping CEFC.	Strong support for CEFC, emphasising that investments should be additional to Renewable Energy Target. Propose allocating additional \$20 billion to CEFC.
Carbon Farming Initiative (CFI)	Ongoing support for CFI, providing incentives for farmers and landowners to store carbon in trees and soil. Covers reforestation, legacy waste emissions from landfill sites, manure management in intensive livestock production and savannah fire management.	Support for CFI as part of an implementation plan for a Direct Action program. Strong emphasis on sequestration of carbon in soil.	Support for CFI, although some concerns about limitations and risks of over reliance on carbon capture and storage initiatives.

Noting the necessary global scale and speed of emissions reductions and Australia's responsibility and capacity to play an exemplary leadership role, Australia should be aiming for a minimum target of 50 per cent reduction in emissions by 2020 and a zero net emissions economy by 2040. The achievement of these targets needs to be primarily driven by Australian domestic rather than offshore emissions reductions if we are serious about driving a rapid transition to an energy efficient, renewable energy Australian economy. Over time Australian policies will also need to make a strong contribution to the international action required to draw down carbon, leading to atmospheric concentrations of well below 350 CO₂e ppm.

In setting Australian emissions reduction targets it is also crucial to bear in mind the simple mathematics of global and Australian carbon budgets:

- Globally we can emit *565 more gigatonnes of carbon dioxide* and stay below *2°C of warming*.
- Burning the fossil fuel that corporations now have in their reserves would result in emitting *2,795 gigatonnes of carbon dioxide* – five times the safe amount.
- The massive coal mining expansion planned by Australian companies and governments is one of a handful of projects in the world that would take the planet beyond the point of no return if they were to go ahead.²⁴

While the achievement of an emissions target at this speed and scale is clearly extremely challenging, critics who argue that this task is simply impossible have a responsibility to reflect and speak honestly about the full consequences of inaction and delay.

In fact, as noted above, there is a strong case for significantly accelerating this timetable for achieving zero net emissions if we are to avoid the escalating risk of crossing critical climatic tipping points – or of being forced into the unknown and unpredictable territory of large-scale planetary geo-engineering.

The rapidly growing gap between emission reduction at this scale and speed and the current priorities and policies of both the Australian Labor Party and the Liberal-National Coalition leads to the question 'is the shift from business as usual policies to transformational change technically, economically and politically possible?'²⁵

TALKING SENSE on the post-carbon economy

The overall suite of actions needed to achieve a just and sustainable post-carbon future is now widely understood. It includes:

- Rapid replacement of fossil fuels by renewable energy sources including solar, wind, wave and tidal, hydroelectricity, geothermal and bioenergy. A rapid switch in investment from fossil fuels to renewables will require a robust carbon price, feed-in tariffs and supportive regulatory initiatives; a rapid phase out of tax breaks and subsidies to fossil fuel intensive industries; and large-scale investment in both smart grid infrastructure and local distributed energy networks.
- Rapid reduction in energy consumption through improved efficiency and reduced demand. Massive energy - and financial - savings can be achieved in both new and retrofitted buildings including through maximizing insulation, passive solar, combined heat and power and decentralised heating and cooling systems. Key energy efficiency priorities in industry include upgrading electric motors, lighting and heating systems as well as improving recycling and abatement technologies for non-CO2 emissions. Crucial steps in transport include setting and achieving higher vehicle fuel economy standards as well as accelerating the electrification of cars and public transport. Large gains in the transport sector can also be achieved through reducing travel distances including through smarter urban planning, traffic congestion taxes and the increased use of video conferencing.
- Reduction of emissions from agricultural activity. At the broadest level, localised production and distribution of food will be crucial along with improved efficiency of on-farm energy and fuels. Pasture and grassland emissions can be reduced by optimising grazing intensity, expanding the planting of deep-rooted perennial grasses and improving fire management. Priorities in relation to cropping include improved fertilizer and nutrient management, reduced tillage and the restoration of degraded farmland. While over time reliance on livestock production will need to decline, livestock emissions can also be reduced through active livestock feeding, anti-methanogenic treatments and improved management of manure.
- Drawdown and sequestration of carbon into sustainable carbon sinks through cropland carbon sequestration, reversal of deforestation and improved forest management.
- Strengthening the resilience needed to cope as well as possible with the climate challenges that lie before us.

The world is not waiting for Australia

From Germany, Denmark and the UK to California and China the global momentum in support of large-scale de-carbonisation strategies is rapidly accelerating. While even the most ambitious of these governments' emissions reduction targets still

require substantial strengthening, the initiatives demonstrate the viability of renewable energy; reductions in energy demand and carbon sequestration.

At the end of 2011 Germany had already achieved a 26 per cent reduction in greenhouse gas emissions (from 1990 levels), exceeding its 2012 Kyoto commitment of a 21 per cent emissions reduction.²⁶ All major political parties in Germany are committed to 40 per cent emissions reduction by 2020; 55 per cent emissions reduction by 2030, 70 per cent by 2040, and 80-95 per cent by 2050. By 2011 10.9 per cent of all German energy supply was renewable. The 2010 *Germany Energy Concept* set targets to increase the share of renewable energy to 18 per cent of total energy demand by 2022, 30 per cent by 2030, 45 per cent by 2040 and 60 per cent by 2050.²⁷

By 2010 Germany was already home to half the world's installed solar photovoltaics (PV).²⁸ Feed-in tariffs and accelerated investment in grid expansion are playing a key role in driving the German transition from fossil fuels and nuclear energy to renewables.²⁹ Importantly, individual households, community groups and farmers own over 50 per cent of renewable energy capacity built as a result of the feed-in tariff policies.³⁰

The flow-on effects of the *German Energy Transition* policies have provided over 382,000 new jobs in the renewable energy sector and saved over €3.5 billion in energy costs. In addition to a strong emphasis on reducing energy consumption (including a 5.3 per cent reduction between 2010 and 2011) Germany has also invested heavily in promoting renewable energy and energy efficiency knowledge transfer to developing and newly industrialising countries.

In 2012 the Danish parliament agreed to a target of 35 per cent renewable energy by 2020 as a significant step towards the achievement of a 100 per cent fossil fuel-free economy by 2050.³¹ Søren Dyck-Madsen, Energy Advisor to the Danish Ecological Council noted:

*'the world needs countries that can serve as role models of how to switch an entire society to be dependent on sustainable energy with a large degree of energy efficiency. Denmark is such a country. We demonstrate that it is both possible and economically sustainable to make a switch in energy supply.'*³²

Under the administration of Conservative Prime Minister David Cameron the United Kingdom remains committed to a reduction in greenhouse gas emissions of 34 per cent (base year 1990) by 2020 and 80 per cent by 2050.³³ By 2011 renewable energy had risen to 9.5 per cent of total UK energy generation. As Prime Minister Cameron noted in February 2013:

*'Make no mistake, we are in a global race and the countries that succeed in that race, the economies in Europe that will prosper are those that are the greenest and the most energy-efficient. Energy consumption is set to grow by a third over the next two decades alone. And in a race for limited resources it is the energy-efficient that will win that race. It is the countries that prioritise green energy that will secure the biggest share of jobs and growth in a global low carbon sector set to be worth \$4 trillion by 2015.'*³⁴

While the prospects of United States action to comprehensively address climate change remains constrained by Congressional gridlock, the state of California has now established its own cap and trade mechanism to regulate carbon dioxide emissions.³⁵ In the near future this will be linked to the cap and trade regime in the Canadian Province of Québec.³⁶ California has also announced a 'Renewable Portfolio Standard' of 33 per cent renewable energy by 2020 and a net feed-in tariff to provide a financial incentive for individual homes and businesses to install their own renewable energy systems.³⁷ As a result of these policies, California now leads the United States in installed solar projects and its three largest energy providers now meet close to 20 per cent of their energy supply through renewable energy.³⁸

Although consistently reluctant to sign up to binding international commitments to reduce greenhouse gas emissions, China has taken strong unilateral action to develop its renewable energy industry and reduce emissions. The 12th five-year plan (2011–2015) seeks to cut the carbon intensity of GDP 17 per cent by 2015, to cut overall energy intensity by 16 per cent and to increase renewable energy production to 11.4 per cent.³⁹

China has invested dramatically in developing its renewable energy industry and in 2011 earned over US\$36 billion from the export of solar panels. In 2013 China is expected to surpass Germany as the country with the greatest energy generating capacity from installed solar panels.⁴⁰ In 2013 alone China will add 21 gigawatts of hydroelectricity, 18 gigawatts of wind generation and 10 gigawatts of solar. In May 2013 the influential Chinese National Development and Reform Commission proposed setting a cap on greenhouse gas emissions from 2016 and bringing forward its target date for peaking overall emissions to 2025.⁴¹

IDEAS WE NEED NOW

An Australian government that took the threat of climate change seriously would go well beyond the policies currently offered by Labor, the Coalition, and even the Greens. An incoming government with a plan for a zero carbon economy and a just and resilient post-carbon future could and should take the following actions.

To begin, we would need a clear and unequivocal public commitment by the Prime Minister that the Australian Government's highest priority is to achieve an emergency speed transition to a just and resilient post-carbon economy. The Prime Minister's announcement would emphasise the importance of setting and achieving emissions reduction targets and a clear recognition of the risks involved in failing to act. The statement would also call on all State and local governments, business, trade union and community organisations to demonstrate the strong moral leadership and decisive action required to meet Australia's national emission reduction and carbon budget targets.

This commitment would be legislated through an *Australian Climate Solutions Act* that set a 2020 target of reducing emissions by 50 per cent (on 2000 levels) along with the annual targets, carbon pricing mechanisms and priority actions needed to achieve the goal of zero net emissions by 2040. The Act would also establish an *Australian Climate Solutions Taskforce* to ensure swift and integrated implementation of the key policy and program priorities. The Taskforce would

be chaired by the Prime Minister and include key decision makers from State and local government, business, trade unions and community organisations.

The transition to a post-carbon economy would be supported by 6 key action plans.

First, an *Australian Renewable Energy Plan* to achieve 100 per cent renewable energy within 10 years. Key features of this plan could include:

- The rapid-phase out of coal fired power, including an immediate moratorium on new coal fired power stations and an immediate end to all public subsidies and tax concessions given to fossil fuel industries.
- The establishment of a *Climate Solutions Transition Fund* to support communities affected by the phase out of fossil fuel based industries including through direct income support, education and training; and financial support for community-based economic development plans.
- Investment to fund the stationary energy and distribution systems required for a swift transition to a 100 per cent renewable energy based economy, with key priorities being solar thermal, solar PV and wind turbines, along with a national expansion and interconnection of Australia's electricity grid infrastructure.⁴²
- In addition to a higher carbon price, strategies for mobilising the necessary investment could include direct public sector investment, a national feed-in tariff, tax incentives, low interest loans, loan guarantees and enhanced support for community based co-operative and social enterprise initiatives.

Second, an *Australian Economic Electrification Plan* with initial priorities including a modal shift in passenger and freight transport from road to rail; the rapid replacement of fossil fuel based cars with electric vehicles; and the full electrification of household and industry heating and cooling.

Third, an *Australian Energy Efficiency Plan* that identifies the regulatory, planning, educational and financial initiatives that could achieve the overall goal of a rapid transition to a zero waste economy. Key initiatives would target the energy efficiency of our current systems of building and planning, manufacturing, and transport – both public and private.

Fourth, an *Australian Sustainable Consumption Strategy*. The first step in developing this strategy would be to initiate a nation-wide conversation with Australian households, communities and businesses about the necessity, possibility and desirability of reducing energy and resource consumption. Initial topics for this 'national conversation' might include the importance and benefits of reducing airline and car based travel; increasing consumption of locally produced food; and increasing the time available to be with family and friends and for creative and recreational interests.

Fifth, An *Australian Sustainable Agriculture and Forestry Plan* designed to reduce land-based emissions and increase carbon sequestration. Key measures would include: improved land management of both pasture and cropland, actions to reduce livestock emissions and reversal of deforestation.

Finally, state and local governments, community sector and business organisations would collaborate to develop and implement a comprehensive, long-term *Australian Climate Change Adaptation and Resilience Plan*.

Above all, Australia needs a firm commitment to and strong advocacy for a

fair and co-operative process of global de-carbonisation. While the achievement of a globally binding de-carbonisation treaty remains important it is not the only way for international collaboration to achieve results. Immediate priorities include alliances with like-minded governments and a rapid expansion in funds committed by citizens in wealthy economies to support de-carbonisation of less developed and less wealthy societies.

IT'S THE POLITICS, STUPID: REMOVING ROADBLOCKS TO A POST-CARBON ECONOMY

*'Despite all of the uncertainty in the geophysical, social and technological aspects, our analysis indicates that the dominant factor affecting the likelihood and costs of achieving the 2°C objective is politics.'*⁴³

*Rogelj et al, 'Probabilistic cost estimates for climate change mitigation',
Nature, January 2013*

Australians like the idea of leadership on climate change more than the politics of the carbon price would suggest: a recent Climate Institute survey found that 58 per cent think 'Australia should be a leader in finding solutions on climate change'.⁴⁴ However, it's also clear that mobilising public support for the policies outlined above is going to be tough. Key actions needed to remove the political roadblocks preventing the rapid implementation of post-carbon economy transition strategies include the following.⁴⁵

Overcoming climate science denial and deepening understanding of the necessity and urgency of action

Clear and effective communication of the most robust scientific evidence of climate change trends, causes and risks remains the essential foundation for overcoming climate change denial and strengthening understanding of the urgency of action. Evidence of the ways in which climate change is increasing the frequency and severity of extreme weather will be particularly important in enabling individuals to 'join the dots' between personal experience and broader climate trends.

However, the interpretation of climate science messages is profoundly influenced by pre-existing value frameworks and political perspectives. For some audiences an ethical concern about the consequences of catastrophic climate change for the most vulnerable people and species will be a sufficient motive for action. For others, recognition of more immediate and personal risks to their own families and communities will be crucial. Others again may be most influenced by understanding the potential social and economic opportunities and benefits of a sustainable post carbon future.

Overcoming the power and influence of the fossil fuel industry and its allies

The most effective strategies for overcoming the influence of the fossil fuel lobby and ending the mining of fossil fuels include ceasing public subsidisation of fossil fuel industries; a concerted campaign to encourage disinvestment in

fossil fuel corporations; a sufficiently robust carbon price; and legislation and regulation driving a rapid shift in investment from fossil fuels to renewables.

Equitable structural adjustment programs for communities and households affected by the phase out of fossil fuel industries and employment will also be vital, both for ethical reasons and to maintain community support for the implementation of tough political decisions.

Overcoming political paralysis and strengthening the determination of communities, governments and businesses to take decisive action

Courageous moral leadership – at multiple levels and in many sectors – is an essential precondition for rapid implementation of post carbon economy transition strategies. In addition to the corrosive influence of denial campaigns and the lobbying of vested interests, other obstacles standing in the way of decisive climate change leadership include competing and more immediate economic and political demands; the pressure not to be seen to be politically naïve; and the sense that the transformational change required is simply not possible.

The communication of ‘parallel narratives’ that describe a desirable post-carbon future combined with ‘living laboratories’ demonstrating what life in such an alternative future might be like can help create and sustain the belief that transformational change is indeed socially and politically feasible.

Developing an economic paradigm focused on wellbeing and resilience rather than unsustainable consumption of energy and resources

Many authors agree that the dominant economic paradigm, based on unconstrained consumption of resources and energy, is unsustainable on a finite planet. It is also increasingly clear that a significant reduction in consumption of energy and resources will be an essential precondition for the rapid transition to a zero emissions global economy.

The economic growth debate is, however, best framed not in terms of ‘growth’ versus ‘de-growth’ but as a shift in priorities from limitless growth in the consumption of energy and resources to improvement in important social and ecological priorities. In *Prosperity without growth: Economics for a finite planet*, UK economist Tim Jackson makes a compelling argument that our ability to ‘decouple’ conventional economic growth from ecological destruction is highly questionable and that our focus must be on a redefinition of prosperity – a vision ‘in which it is possible for human beings to flourish, to achieve greater social cohesion, to find higher levels of wellbeing and yet still to reduce their material impact on the environment’.⁴⁶

Overcoming technological and social path dependencies and driving social, economic and technological innovation

The crucial role of individual and organisational change agents, social entrepreneurs and demonstration projects in challenging path-dependent thinking and in imagining and communicating disruptive ideas and technologies is now widely understood.

However, researchers and policy makers also increasingly note the importance of a more proactive role for government in setting long-term policy directions and in mobilising the investment required to drive the rapid, scaled-up commercialisation and deployment of game-changing social and technological innovations.⁴⁷

Strengthening the financial and governance capabilities needed to drive swift implementation of large-scale de-carbonisation

As the 2012 *Climate Tracker Update* notes:

*'The cost of staying below 2°C can be less than 1% of global GDP, when investments are spread overtime. Coordinated early action (i.e. starting now, well before 2020) will deliver the least cost way of staying below 2°C. The longer the delay, the higher the cost and the bigger the technological challenges.'*⁴⁸

Strategies for mobilising the required investment funds are likely to include a robust carbon tax, a 'Tobin tax'⁴⁹ on international financial transactions and resources arising from the end of subsidies and tax concessions to fossil fuel industries.

An equitable strategy for redistributing the financial burdens and costs of the transition policies will need to include global, national and regional structural adjustment assistance to support workers and communities to shift away from fossil fuel based employment as well as investment in renewable energy and climate change resilience international aid and development programs.

CLIMATE ACTION AS ENLIGHTENED SELF INTEREST

While the social and economic costs and challenges of a rapid transition to a post-carbon future are formidable, the ethical and strategic case for decisive action is overwhelming.

The first and fundamental reason for individuals, communities and nations to significantly reduce the risks of 'runaway' climate change is the ethical imperative to take the actions required to enable future generations of human beings and other species to exist and thrive in a liveable world. Australia has a particularly strong ethical responsibility to provide leadership in to reduce greenhouse gas emissions, given that Australia is one of the world's wealthiest economies and is one of the largest per capita emitters of greenhouse gases.⁵⁰

Decisive action by Australia would provide a powerful example to other wealthy nations with a reliance on fossil fuel of the feasibility and desirability of leadership in reducing greenhouse gas emissions. Ending Australian coal and oil exports is also likely to increase international coal and oil prices and thereby improve the international competitiveness of renewable energy investments.

A common response to the argument that Australia should rapidly transition to a post-carbon economy is that the economic and employment risks are too great. In fact, the largest economic risk is that Australia will fail to take the actions needed to make its economy competitive and resilient in the increasingly energy efficient and renewable energy-fuelled global economy of the 21st century.

While Australia has a host of natural advantages in clean-tech markets, it is lagging behind due to a lack of supportive policy settings.⁵¹ As Paul McCormack, a fourth-generation farmer in Snowtown, South Australia reflects on his decision

to invest substantial time and resources in the development of the Snowtown wind farming precinct: 'if we can't use the wind and sun in this great land there is something wrong. I come out each morning and look at my turbine and get greener with each revolution.'⁵²

As the Climate Institute's *Climate of the Nation 2013* report noted, the majority of Australians support this view, finding that:

*'63 per cent of Australians think that responding to climate change represents a unique economic opportunity for the development and sale of renewable energy. 71 per cent see new jobs and investment resulting from Australia acting on climate change, with 64 per cent of Coalition voters sharing this view.'*⁵³

Given the relatively small role that the coal industry has in providing employment and the many potential competitive advantages that Australia has in becoming a leader in renewable technology, the employment risks of a rapid transition from fossil fuels to renewables are also often overstated. Despite popular perceptions, the coal mining industry in Australia directly employs just 0.3 per cent of the population (25 times fewer than is employed by the Australian manufacturing industry). While the profits from the mining industry are indeed large, more than 80% of these profits flow overseas.⁵⁴

The most common argument against Australian leadership in renewable energy and energy efficiency technology is that Australia cannot compete in manufacturing. The claim that Australia's labour costs make low carbon manufacturing unviable are contradicted by the success of PV production other nations that are said to have lost competitiveness in manufacturing, like the United States.

Manufacturing is just one part of a long, varied zero carbon technology value chain. The US thin-film solar giant First Solar, for example, notes that around 33 per cent of its large-scale project costs are in financing; 33 per cent in installation and additional components like support racking; 5 per cent in development; and only around 25 per cent in the solar PV modules themselves. China's Suntech, the largest PV manufacturer in the world, agrees, pointing out that unlike the car industry where 90 per cent of the value is in manufacturing, 50 per cent of the value of PV is created locally.

A shift from a fossil fuel to a renewable energy-based economy also has the potential to create a wide range of health and wellbeing benefits. According to the recent report by The Climate Institute, *Our Uncashed Dividend: The Health Benefits of Climate Action*, a shift away from coal-fired power generation and fossil fueled transport could 'deliver significant and immediate benefits to health' and save the Australian community up to \$6 billion annually in avoided health costs.⁵⁵ As the report notes, 'the mining and combustion of coal carries serious and well understood risks for human health, including diseases such as asthma, heart disease, lung cancer and stroke'.⁵⁶

An extensive and rapidly expanding body of evidence demonstrates the ways in which climate change is driving and accentuating a range of public health problems, including the spread of infectious diseases, and the deterioration of water and food quality and availability.⁵⁷ Not only would a transition to clean energy and smarter transport options reduce the intensity of greenhouse gas emissions but it could also play a significant role in addressing these serious public health issues.

CONCLUSION

*'Global inaction has eliminated easier options; the only realistic way now to avoid catastrophic climate change and the disruptions of resource scarcity, is to immediately halt any new high carbon development and to initiate emergency action by placing economies on a war footing to rapidly implement low carbon re-structuring.'*⁵⁸

*Ian Dunlop, former CEO of Australian Institute of Company Directors,
Chair of Safe Climate Australia and member of the Club of Rome*

An honest assessment of the size and scale of the political obstacles standing in the way of an adequate and timely response to the climate crisis is certainly an essential guard against wishful thinking. It is also true that, as many commentators such as Ross Garnaut and Ian Dunlop have noted, climate change presents a uniquely 'wicked' and 'diabolical' risk management problem given the distance in time between our current actions and their full, potentially catastrophic consequences.⁵⁹

Human history is, however, full of stories of transformational change, which few at the time saw coming...the abolition of slavery, the end of apartheid, the fall of the Berlin Wall, and the still-unfolding possibilities of the Arab Spring.

Such reminders of the complex and unpredictable relationships between the constraints of our physical environment and the human capacity to imagine and create alternative futures provide valuable starting points for thinking about political scenarios with the potential to drive a rapid transition to a just and resilient post-carbon economy.

Reflecting on the campaigns which overcame the threat of ozone depletion or the power of the tobacco corporations might lead us to imagine an emissions reduction scenario driven by scientific evidence, persuasion and regulation. The immediate question of course is whether the speed with which catastrophic climate tipping points are approaching will allow us the time for this most incremental of strategies.

The speed and spread of paradigm-shifting technologies like the printing press, the steam engine or the silicon chip provide a second, plausible narrative of swift and transformational change. The speed with which renewable energy technologies are improving in efficiency and falling in cost is certainly inspiring – although it is increasingly clear that social as well as technological innovation will be a central part of an effective solution to climate change.

A third pathway might be created through the kind of visionary leadership and community mobilisation that led to the abolition of slavery, the achievement of women's rights and the overthrow of apartheid.

It appears however increasingly likely that it will take a devastating series of crises on the scale of Cyclone Katrina and Cyclone Sandy to create the kind of 'Pearl Harbour' political tipping point in which visionary political leadership, community mobilisation, technological innovation and social creativity can be brought to the fore to drive transformational change at the necessary scale and speed.

While his role in formulating and driving the neoliberal economic agenda makes it deeply ironic, the following advice from Milton Friedman also provides

us with a valuable reminder of the powerful role which ideas can play in driving transformational change, particularly at moments of economic, social and ecological crisis.

*'Only a crisis—actual or perceived—produces real change. When the crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable.'*⁶⁰

CHAPTER EIGHT ENDNOTES

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CHAPTER NINE

Welcome Home: Preventing the next culture war



by Lindy Edwards

INTRODUCTION

If Australia is to sustain its enviable record as one of the most cohesive and stable societies in the world it is going to take more than luck.

Around the globe, very few countries have the same constitution and system of government that they had 110 years ago. Most have been through violent upheavals that have seen their institutions torn down and replaced, often repeatedly. Warring factions, rival ethnic groups, battles over resources, and revolutions over injustice have sparked violence and social dislocation. Since Federation Australia has largely avoided such conflicts.

Our relatively peaceful history does of course have a dark side, beginning

with the violent dispossession of the first Australians and discrimination against their descendants. From the anti-Chinese riots at Lambing Flats in 1860 to the Cronulla riots of 2005, outright violence along ethnic lines has been less common than in many societies but it has been with us.

Under the notorious White Australia policy there was an assumption that people needed to come from the same ethnic group to be able to form a cohesive and unified society. In the first phase Australia sought to draw all of its immigrants from one cultural group, namely the British. It was of course highly problematic for a country in the midst of Asia to seek to encourage mass migration from the other side of the globe, and to exclude all of the people in the immediate region. The policy not only promulgated racism and injustice, it was also strategically unwise. It damaged our economic and security relationships in the region, and was ultimately practically unsustainable. When the pool of eager British migrants dried up, authorities were forced to look further afield to meet the migration needs of the nation. After World War II practical realities forced Australia towards a much more diverse immigration intake. It began with people from the Baltic regions, then the Mediterranean, then South East Asia, and more recently the Middle East and Africa.

Today Australia has managed to develop something quite special – a high-immigration country with comparatively high public approval of immigration. Almost half our population was either born overseas or has a parent who was.¹ Surveys that explore attitudes towards immigration find that Australians have unusually positive views compared to people in many other developed countries. For example, one survey covering seventeen countries found that Australians came equal first in our level of support for maintaining or increasing our immigration intake (60 per cent, compared to 22 per cent in the United Kingdom and 18 per cent in Russia).²

In such a diverse society, it's notable that almost all Australians surveyed say that they feel a sense of belonging (95 per cent in 2012). We also express pride in the Australian way of life (90 per cent) and believe that its maintenance is important (91 per cent). When the World Values Survey asked participants to identify people they would not like as neighbours, 6 per cent of Australians selected 'immigrant/foreign worker', compared to 33 per cent in Russia and 43 per cent in France. We came in third out of the twelve countries studied in having open attitudes to migrants.³ We're also doing relatively well on some practical measures of social inclusion. There is now very little difference between the reading levels of migrants' children and other children in Australia: in many other societies the picture is quite different.⁴

If Australia is going to build on this tradition into the future we must face a key challenge in our attempts to create a sense of unity amongst an increasingly diverse population. At the moment, the debate about our national identity is polarized between two approaches. From the 1970s until the mid 1990s the idea of multiculturalism was given prominence in Australia's national story.⁵ It was an approach that celebrated our history as a migrant society, that sought to give each generation of migrants an equal place in the community, and that urged us to embrace diversity. A competing British-centred account of our identity, often described as 'the New Nationalism' has become increasingly prominent over the

last twenty years. It emphasizes ANZAC Day as our national day, our inheritance of British institutions, and our Christian heritage.⁶ It is often characterized as an 'assimilation' approach in which newer generations of migrants are expected to conform to an Anglo-centered culture.

FAST FACTS: attitudes to immigration

Attitudes to immigration and diversity are complex, and the results of opinion polls may not always represent the complexity of people's attitudes. As Andrew Markus puts it, 'majority opinion on many issues is vague, half-formed and inconsistent...On population issues a survey respondent may typically support both assimilation and multiculturalism, and both favour cultural diversity and indicate concern over the division that it produces'.⁷

Responses to surveys may depend on the way questions are worded, or on whether the option of answering 'don't know' is provided. For example, in May 2012 an Australia SCAN survey was widely reported in news outlets as finding that 'more than half of Australians want to ban immigration because population growth is out of control'. However, the survey did not present a range of options including ending immigration but obtained responses to the strongly worded leading statement: 'Australia's population is high enough already and we should stop any further immigration no matter where from'.⁸

A comprehensive survey of attitudes to immigration across several countries in Europe⁹ found that, in general:

- There was more support for immigrants from the same race/ethnicity as the majority, but not that much more. Three quarters of respondents gave the same answers on how much immigration should be allowed regardless of the ethnicity of the migrants
- The difference in support for dominant versus other ethnic groups was about the same as the difference in support for immigrants from rich or poor countries
- Older people are less supportive of immigration
- Increased education is associated with more positive views towards immigration
- Unemployed and permanently sick or disabled people are less supportive
- Locally-born minority ethnic groups are not noticeably more in favour of liberal immigration policies than locally-born people from majority ethnic groups
- There is a strong correlation between the opinion that immigration policy should be tight and the belief that immigrants lower wages, take jobs away, or are a burden to the welfare system
- People's overall assessment of immigration tend to be relatively strongly related to their opinion on the value of homogeneity in customs and traditions

The march of the New Nationalism is remaking the Australian social landscape. Researcher Vibhanshu Shekhar has argued that 'the idea of multiculturalism has suffered a serious setback, being downgraded from a unanimously accepted face of Australia to mere a policy initiative of the Labor government.' He observes that 'multiculturalism as a political philosophy of the state is losing its political and social appeal.'¹⁰ This chapter will explore the dangers presented by these

developments. It will begin by exploring the dangers of the New Nationalism to our social cohesion. It will then examine why the narrative of ‘multiculturalism’ was politically fragile and vulnerable to being torn down. Finally it will propose an approach to Australia’s national identity that could provide a more robust foundation for an inclusive and cohesive society.

ASSIMILATION OR PRIVILEGING: THE DANGER OF THE RIGHT’S CURRENT APPROACH

The ‘New Nationalism’ approach to national identity risks creating a deeply divided society. The approach emerged during the Howard years. The Howard government reasserted a British-centred account of Australian identity. It built up the tradition of ANZAC Day as our national day. It emphasized our links to the crown, the British legacy within our political institutions and culture, and the centrality of the Christian traditions in our society. It played down the place of other waves of migrants in our national story.¹¹ It also facilitated the watering down of norms against racism in public life. John Howard initially welcomed the rise of the One Nation party, and its anti-immigration message, as ‘a new era of free speech’.

Interestingly, however, this period of reasserting a British-centred identity did not coincide with a closing of the nation’s borders. The Howard government adopted this stance at the same time as it embraced historically high immigration levels. As the economy boomed and business lobbyists made demands about labour shortages, thousands of new immigrants flowed into the country. Migrant numbers reached 300,000 per annum at their peak.¹² It created a contradiction in which Australia was asserting its Anglo heritage at the same time as an increasing number of ‘non-Anglo’ people were being invited to join the Australian community.

This policy mix may not be as contrary as it first appears. The reassertion of the centrality of the Anglo traditions appears to have served the purpose of alleviating the anxiety in some sections of the society about the social change being created by immigration. I will refer to the people who identify with the British heritage as ‘Anglo-identified’. In reinvigorating the emphasis on our British heritage, ‘Anglo-identified’ people were elevated over all the other threads in the national story. It installed ‘Anglo-identified’ Australians at the centre of national life, and relegated all others to the periphery of the community. Interestingly, there is evidence suggesting that the policy did in fact have the desired effect (see box).

Attitudes to immigration under the Howard government

The Australian Electoral Survey poll data found that people’s concern about immigration dropped rapidly during the Howard years even as the level of immigration increased.¹³ There are a number of different arguments made seeking to explain this shift in attitudes.¹⁴ Some ascribe the shift in views partly to Howard’s high-profile framing of asylum seeker arrivals as a border security issue over which his government had mastery (‘we will decide who comes into this country...’).¹⁵ Another explanation points to the historically close relationship between levels of unemployment and anti-immigration sentiment,¹⁶ with unemployment having declined markedly under the Howard government. Others link it to the move away from a multicultural narrative of national identity in favour of the New Nationalism.¹⁷

While the New Nationalism may have generated greater acceptance of high levels of non-white immigration among the Anglo-identified community, it is nevertheless extremely short sighted. Inviting migrants to this country while telling a national story that locks them into being outsiders sets us up for a long-term crisis. The problem may be manageable for the first generation, who often feel like outsiders anyway, and are often grateful for the opportunities their adopted home offers. The bigger problem is for the second generation who are born here, but continue to be treated as though they belong at the margins of society.

For kids of Caucasian appearance the problem is an internal one. Anglo Australians don't notice them. They merge into the landscape and don't appear to be different. However, the young people themselves feel the exclusion of knowing that the national story does not apply to them.¹⁸ The bigger problem is for kids whose skin marks them as outside the Anglo tradition.¹⁹ One survey of high school children in Australia found that while second and third generation migrants were less likely to experience racism than recent arrivals, they were still over four times as likely to experience racism as the children of non-migrants.²⁰ These kids will grow up being treated like outsiders in the only country they have ever known. This compounds their internal sense of alienation. It creates a sense that they will never be truly accepted, and that the doors open to others are not open to them.²¹

Social cohesion is endangered when whole social groups feel that they are not able to achieve their life ambitions by working within the system. When people feel the whole system is pitted against them and they cannot succeed on merit, it fuels bitterness and conflict. A recent study highlighted one very practical aspect of this problem in Australia. Researchers submitted over 4000 fake applications for entry-level jobs, and found that candidates whose names marked them as being from an ethnic minority were much less likely to get an interview – despite having identical qualifications.²² If a combination of economic forces and racism locks people into an economic underclass, it risks fostering major social cleavages.²³ Australia's current approach to managing cultural diversity is set to wreak havoc on the long-term cohesion of our society. Nonetheless, at the moment we are struggling for a politically viable alternative.

THE POLITICAL WEAKNESS OF MULTICULTURALISM AS A NATIONAL IDENTITY

Multiculturalism is in decline as a politically articulated ideal in Australia and around the world. John Howard removed it from Australia's mainstream political agenda when he abandoned the language of multiculturalism, and shifted national celebrations away from an emphasis on diversity to an emphasis on 'harmony' and 'shared Australian values'.²⁴ Labor, the traditional champion of multiculturalism, has also distanced itself from it. The Gillard government launched a fairly lightweight 'multicultural policy' in early 2011²⁵ that coincided with the reappearance of the word 'multicultural' in a front-bench portfolio and the announcement of a race discrimination commissioner. They also made an attempt to play up the economic opportunities of the 'Asian Century'. Nonetheless their dalliance was tentative and short-lived. They have moved onto embrace anti-foreigner rhetoric on issues of asylum seekers and 457 visa workers²⁶ much more vigorously and conspicuously.²⁷

In conversations about multiculturalism it is important to be clear on what exactly is being discussed, given that it means entirely different things to different people and in different contexts.²⁸ Sometimes multiculturalism is used as a descriptive term to describe the practical reality of a society made up of more than one ethnic group. Most Australians would agree that they live in a multicultural society used in this descriptive sense, even though they may not agree with a 'multicultural policy'. Multicultural policy when it was first embraced sought to rectify the racial hierarchies that had been present in old systems of assimilation and to establish new terms of equal democratic citizenship.²⁹

Multicultural policy is commonly used to describe three quite different policy prongs. The first focuses on practically redressing the marginalization of the migrant experience by ensuring that people from diverse cultural backgrounds can have equal access to social, legal and political services in a country. The second focuses on supporting and encouraging the maintenance and expression of people's cultural heritage as a way of building migrants' psychological and social health. The third focuses on changing the narrative of national identity so as to explicitly acknowledge migrants' equal place in the life of the nation. Around the world, the first of these prongs has become embedded and is being maintained in most countries.³⁰ It is the second and third level policies that are being contested and watered down. For the purposes of this discussion it is the third meaning – multiculturalism as a narrative of national identity – that I want to focus on.

If progressives are to reinvigorate arguments for an inclusive society in which all Australians have an equal place, we need to begin with a rigorous analysis of the political weaknesses of multiculturalism as a story of national identity and why it has been so easily undermined and replaced. The sources of the difficulties can be seen in the origins of Australian multiculturalism.

Multiculturalism was initially adopted by the Whitlam Labor government in the 1970s for two reasons. Firstly it was a response to the plight of post-war migrants under the assimilation policies of the 1950s and 1960s. In the late 1960s migrants were experiencing much poorer socio-economic outcomes, poor health and poorer mental health relative to the rest of the community. The difficulties of adapting to an assimilationist Australia were so great, that our large and expensive migration program was failing and people were returning to their countries of origin in large numbers.³¹ The policy was initially framed to reduce hardship and to facilitate a successful migration experience. Multiculturalism as a narrative of national identity was adopted as one element of this multi-pronged policy. Its purpose was to increase migrants' sense of membership and belonging in their new country.³²

Secondly, multiculturalism was adopted as a foreign policy initiative.³³ In the late 1960s Britain had turned away from Empire and indicated its intention to embrace Europe and join the European Economic Community as it was then known. In 1972 the United States also turned away from us, announcing its Guam Doctrine in which it put its allies on notice that we could not expect the United States to come to our aid, unless it was explicitly in US interests. Australia suddenly found ourselves diplomatically isolated in a region who had long been offended by our White Australia Policy. The Whitlam government made considerable theatre of announcing the death of the old policy and the embrace

of multiculturalism as a symbolic gesture indicating our re-orientation towards Asia. It sought to flag to the region a clear break with the past and the beginning of a new direction for the nation.³⁴

The political weakness of multiculturalism is that the dominant 'Anglo-identified' section of the population was not a major driver in developing this story of national identity.³⁵ Of course, many of the small group of policy makers and activists that drove the change came from this group, but multiculturalism was not a response to driving concerns and sentiments within the Anglo-identified population. It was imposed on that population rather than springing from within it.³⁶ A story of national identity that does not have deep roots in the psyche of its dominant group is very vulnerable to being torn down, particularly if the elite consensus driving it dissolves. The fact that many in the Anglo-identified group have reasons to resist the narrative adds to its vulnerability.

The multiculturalism narrative of national identity runs against the perceived interests of some in the Anglo-identified community on a number of fronts. Firstly, the extent to which the policy was initially framed and understood as a break with our past has meant that for many in this group it represents a silencing and a loss of their heritage. Kevin Donnelly writing in *The Drum* earlier this year argued:

*'Australia has a proud heritage and an enduring cultural identity. This should be celebrated not denied.... Australia Day is traditionally about celebrating the First Fleet's arrival in 1788 and recognising the early convicts and settlers, and the fact that our language, political and legal institutions are inherited from the British Isles. Not any more. The cultural left tells us that it's all about multiculturalism and celebrating diversity and difference.'*³⁷

His views reflect a resentment of what is seen as a loss of the Anglo identified group's history.

Secondly, having multiculturalism as a story of national identity represents a loss of cultural hegemony to many in this group. 'Ethnic minorities have much to gain through multiculturalism, including respect for and legitimacy of the maintenance of their original cultural norms and practices' argue Dandy and Pe-Pua.³⁸ However, 'multiculturalism threatens the identity of dominant group members. The dominant group has to make room for other cultures and identities which threatens their cultural hegemony'.³⁹ The strength of the interests at stake is highlighted by research that shows much higher levels of support for multiculturalism among migrants and much lower support among dominant group members.⁴⁰

Thirdly, the loss of cultural hegemony is further compounded by a loss of race privilege. A racist society confers considerable privilege on members of the dominant group and gives them primacy over others.⁴¹ Having the upper hand when competing for job interviews is just one of many examples. The anti-racism movement is successful to the extent that it reduces that privilege. We cannot constructively engage with the resistance to multiculturalism and its anti-racism premises unless we acknowledge that at least part of the resentment is rooted in that loss of advantage. Although we can perhaps take heart from the fact that such resentment tends to fade over time.⁴²

Finally, the multiculturalism narrative often emphasizes the aspect of living in a migrant society that research suggests people tend to find most difficult. Many Australians report positive attitudes to friendships and human connections made across ethnic lines.⁴³ It is very common for people to celebrate the injection of food, café life and cultural vitality into our society.⁴⁴ There is also an awareness of the rich economic networks and opportunities that migrants have brought to our society. Yet for many it is anxiety provoking to operate across unfamiliar cultural norms and customs.⁴⁵ Many people find a social landscape where they do not understand power relationships, social norms or expectations uncomfortable. For them, the language of multiculturalism emphasises the most challenging aspect of living in a migrant society.

Many will rightly argue that the losses of power and privilege experienced by the Anglo-identified population is only fair. That sub-group of the population had enjoyed the privilege of unquestioned cultural dominance. Later versions of multiculturalism attempted to bring that group into a position of equality with other Australians. This argument is true, but a political strategy that rests on expecting a large group of people to surrender their privilege purely on the basis of abstract arguments about fairness is unlikely to succeed over the long term. A robust political solution is one in which all the major stakeholders are invested in its success. As a result, progressives need to recognize the practical importance of winning this group's support.⁴⁶ This group needs to be genuinely engaged in the creation of the national story if it is going to become deeply entrenched in our society. It is also key to implementing a genuinely inclusive society if it is to be practically meaningful – it's hard to imagine making progress on the kinds of 'invisible discrimination' revealed by the job interview study without support from members of the dominant group. The great challenge for progressives in re-opening this conversation is to find a vision of national identity which can win the support of most of the Anglo-identified population while still delivering a more just and inclusive society for all of the different waves of Australia's migrants.

RE-INVIGORATING A LOST NARRATIVE OF NATIONAL IDENTITY

Australia does have a narrative of national identity that fits this bill, but it needs to be reinvigorated. In the 1980s Australians stopped celebrating our early history. The left attacked our track record on Indigenous issues, the White Australia policy and the treatment of women. The right attacked the old economic policies of tariffs and wage regulation. We began to decide that everything from the early period around Federation was shameful, except for the ANZACs. Such negative depictions of our history are not surprising in a period when we were attempting to overturn long held policy settings. But the time has arrived when it would serve the nation to revive public understanding of our early history, and to draw on it as the basis of our shared national identity.

Many on the right seem to want to take pride in our historical achievements without also taking responsibility for our mistakes. The phrase 'black armband view of history' suggests a view that acknowledging the dark side of our history makes any kind of national pride impossible. Arguably many on the left reinforce this idea when we explain the historical roots of today's inequalities without

also telling the story of what we got right. As Tim Soutphommassane puts it, 'multicultural realities do not require renunciation of a civic solidarity based on a national tradition'.⁴⁷

Australia's founding myth was that we were people who had escaped the tyrannies of the old world and we were going to create a utopian new society. Many early Australians, from the first freed convicts to later waves of 'economic refugees', had escaped the injustices of the European class system and the exploitation of early industrialization. Their vision was to create a radical new society built on the principle of equality of all people. It was going to be a democratic society. It would be a place marked by egalitarianism, economic fairness, and opportunity for all.⁴⁸

Australia has a rich history of having led the world during this period. During an era when most of the western world was still dominated by aristocratic class structures, we were dubbed the 'social laboratory of the world' for our pioneering efforts at creating a society that offered genuinely equal opportunity to all white men. We were considered 'radical democrats' as we enabled ordinary men and women to not only vote, but to run for office. We were deemed dangerous social engineers for placing the quality of life of the ordinary person at the centre of our economic strategy. And we were considered trailblazers in the social democratic age as we trusted in democratic governments to address our collective concerns.⁴⁹

In recent years there has been so much emphasis on Australia's place in the English speaking tradition, that we have forgotten how pioneering we were in movements towards democracy. The British pioneered parliamentary government, where leaders publicly debate what the laws of the land should be. However when the idea of the Parliament was conceived, it wasn't expected to reflect the will of the people. It was to be populated by the ruling elite. The British House of Lords (the equivalent of our Senate) still includes members based on hereditary peerage and lifetime appointments today, despite years of incremental reforms.

Similarly the American system was also not designed to reflect the will of the people. The Americans set out to create a republic at a time when most of Europe was ruled by monarchies. Their goal was to make it impossible for a President to become a dictator or a monarch. They set up a division of powers that made it hard for the President to implement major social change. That institutional design is still at the heart of their political gridlock today. In creating their system, America's founding fathers did not see the President as enacting the will of the people. They assumed elite leadership. For them, voting was simply another part of the system of checks and balances. Like the Europeans they also feared 'mob rule' by the masses. The complex electoral college system that we all try to get our heads around every Presidential election was originally designed to water down the influence of the popular vote in the American political system.

As a result, while Australia did draw on elements of the British and American political traditions, we also broke new ground for democracy. Australia had the world's first national Labor government: the first government in the world with an explicit mandate to represent the will of the working classes. This was not merely an achievement for the Labor Party, but the outcome of a political system that put genuine power into the hands of ordinary people. In Australia's

early Parliaments one of our most formidable leaders addressed the Parliament with holes in his suit pants, because it was the only suit he had. It was a revolutionary transformation in who participated in ruling the nation.

Later, when new waves of migrants had arrived and become part of the fabric of the society, we held onto our utopian zeal. When the liberation movements of the 1960s and 1970s hit, they were centred on great books. A colleague of mine, Professor Ian Marsh, is fond of pointing out that Australians punched above their weight in authoring those books. Germaine Greer wrote one of the great books of feminism, Dennis Altman wrote one for the gay rights movement, Peter Singer wrote one for the ecological and animal rights movements, and Helen Caldicott wrote one for anti-nuclear movement. The belief that it is possible to create a freer, more equal and more just society than has ever existed before runs deep in the Australian psyche. The idea that human societies are not chained to repeating history and that we can create a better world runs deep in the Australian tradition. In recent years we have lost sight of how rare that philosophy was, and still is.

It is a philosophy that has room for all Australians, old and new. People have arrived here often having escaped war, poverty and oppression. They have come to build a better life for themselves and their families. They want to be a part of creating a better future. In doing so they are embracing a society that has a particularly strong commitment to the equality of its citizens, the value of collectively solving problems, and adopting an attitude of 'live and let live' to difference. The distinctiveness of this value set is often not properly appreciated by Australians until we live overseas. We don't recognise the strong place of equality in our national values until we hit the class systems of the United Kingdom or some countries in Asia. We do not appreciate the way we collectively solve problems until we see our difference from the United States. And we don't recognise the strength of our 'live and let live' ethos until we live in one of the many more conformist cultures in the world. Ours is a culture that should be celebrated. It has been hugely successful. It has created wealth, peace and quality of life for most of its citizens for over a hundred years.

EGALITARIAN NATIONALISM AS SOCIAL GLUE

Progressives have been instinctively anti-nationalist since the end of World War II. There are good reasons for that, yet in our increasingly patriotic age, there is a need to redirect the existing momentum and use it to bolster our social cohesion. Channelling the New Nationalism towards an Egalitarian Nationalism has considerable potential. Narratives have the power to mould social relationships to make them more inclusive. They can shape people's sense of identity and who they see as being a part of their group. They can alter what group values are understood to be, and what practices and ways of doing things naturally follow from those values. The version of Australian nationalism sketched out above would provide a much stronger foundation for an ethnically inclusive society than current narratives for four reasons.

Firstly, this narrative of national identity emphasizes the shared experience of all Australians. There is evidence that successful anti-racism strategies begin by emphasising similarities rather than differences between cultural groups.⁵⁰

Reflecting on the shared experiences of our families and our forebears coming to Australia to escape poverty, oppression and war highlights things all Australians have in common. It also highlights the very human nature of our shared dreams of seeking to build a great quality of life for ourselves and our families. In focusing on what the different generations of arrivals have in common we centre our national identity on our commonality rather than our difference.

Secondly, this narrative subtly shifts the boundaries of who counts as an Australian to create a more inclusive national identity. A number of authors have argued that 'Australian' has become an almost exclusively white, Anglo-celtic identity and that this results in people who don't meet that criteria being treated as an outgroup.⁵¹ However, research in the United States has found that group categorisations can be redefined to create broader categories.⁵² Researchers such as Pedersen and Collins have argued that if the understanding of Australian identity could be broadened to better include migrants and other minority ethnic groups it would be the basis of a more inclusive society.⁵³ In shifting the national story away from a focus on ethnic Britishness, and towards the particular set of values and ideas that make Australian culture special, we establish a basis of Australian identity which can embrace and be embraced by people from many ethnic backgrounds.

Thirdly, it seeks to centre our national values on the ideals of egalitarianism. To be a patriot or nationalist who subscribes to this narrative is to believe that it is wrong to exclude any group of people from the life of the nation, from fair access to resources and opportunities, no matter who they are or where they are from. Levy has argued that increasing the salience of egalitarian values in this way can be a useful way of fighting racism.⁵⁴ The argument is that people would experience cognitive dissonance if they think of Australian values as treating people equally and then behave in racist ways. They would become uncomfortable as they became aware of the inconsistency and would attempt to reduce the discrepancy by changing the inconsistent thoughts. As a result, by emphasizing egalitarianism and its relationship to racism, people may begin to feel that expressing racism is in some way 'unAustralian'.⁵⁵

Fourthly, it seeks to provide a basis for the pursuit of economically egalitarian policies. The level of economic equality is a strong driver of social cohesion over the long term.⁵⁶ There is strong evidence that as equality worsens 'tolerance' also declines.⁵⁷ While narratives of inclusion are important, they will amount to very little if the practical reality is an economically segregated society with new migrants at the bottom. As global pressures push us towards greater levels of inequality, Australia needs to invest more in social equity to ensure we remain a cohesive society. This narrative of Australian identity provides a launching pad for arguing for those sorts of policies in the context of the national story.

Finally, this version of Australian nationalism is more likely to be embraced by elements of the Anglo-identified community because it does not confront their cultural privilege as directly, and instead seeks to accommodate their interests along with those of newer migrants. It is not a direct assault on the 'Anglo identified' community's cultural hegemony even though it could significantly shift the national story towards one that a wider range of Australians could take ownership of. This is not to suggest that progressives should never

tell stories or advocate for policies that do not have the support of the Anglo-identified group. Rather, a national story based on shared values and interests is likely to provide the common ground needed to build support for other causes. It enables a continued celebration of the nation's history and a pride in that history. The emphasis on egalitarianism is both a deeply resonant principle, and one that many disadvantaged Australians (who are often the strongest opponents of multiculturalism) have an interest in advancing. Egalitarian Nationalism is a narrative that Anglo-identified Australians have more reasons to support, advance and implement.

As progressives look to the future and grapple with how we can build a more cohesive and inclusive Australia we need to be realistic about the political weakness of relying on multiculturalism as a narrative of national identity. A new way forward needs to be found which the dominant community is prepared to embrace, and which lays open the basis of a more inclusive and just society for all Australians. Celebrating an egalitarian nationalism has the potential to meet both of these demands.

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CHAPTER TEN

The Vision Thing: We need a national plan



by Geoff Gallop

In the lead up to this year's federal election plenty has been said about trust (or lack thereof) in the major parties and their leaders, but little has been said about how to build trust in the process of governing itself. The relationship between government and people is an ongoing one. Keeping it intact between elections can be a matter of uncomplicated populism or outcomes-focused management, but is usually a mixture of the two. Elections should not be the only way we hold governments to account for what they are doing. There are choices we can make about the styles and institutions of government, and they should be put on the table for more intensive discussion during an election – as when Labor's case for co-operative federalism came up against John Howard's 'aspirational nationalism' in the lead up to the 2007 election.¹

We can improve our system of government by having the Commonwealth develop a national plan along the same lines as we have seen at the state and local levels of government. A national plan would involve setting out a clear set of objectives for the nation, outlining how success or otherwise is to be determined, designing means to these ends and establishing an independent mechanism for monitoring and evaluating performance. Not only would it bring system and purpose to the way we are governed but also a much needed layer of accountability to both the elected and non-elected arms of government. A move towards an integrated blueprint of government aims and policies would also be in line with developments in government administration in recent decades, no matter which political party has held office.

The way we govern ourselves should up for debate, as well as what we govern for. The success of ambitious policy ideas, including those put forward in *Pushing Our Luck*, depends on the quality of the relationship between governments and citizens. This chapter examines whether there is an inclusive, powerful and efficient model for successful policy-making that could improve that relationship.

THE COAG REFORM AGENDA

The first port of call for my discussion of national planning will be the Council of Australian Governments (COAG) Reform Agenda, as agreed in 2008 between the Prime Minister, Premiers and Chief Ministers. This arrangement was a wide-ranging attempt to get agreement on national objectives (and indicators of performance) and a plan of action to achieve and monitor them. National objectives have been agreed in key areas, most notably health and education, and funding arrangements set up to realize them, with evaluation of performance put into the hands of the independent COAG Reform Council (CRC).

FAST FACTS: what is COAG?

The Council of Australian Governments exists to coordinate policy reforms that require cooperation between all levels of government, by providing an open forum for the leaders of each government to discuss such issues. Its members include the Prime Minister, the Premiers and Chief Ministers of the States and Territories, and the President of the Australian Local Government Association. It was established in 1992 through an agreement between then Prime Minister Paul Keating and the Premiers and Chief Ministers.

The key idea behind the agreement was unity on the outcomes required but diversity in how they might be achieved. This was music to the ears of the States and Territories who wanted and needed financial support from the Commonwealth, but wanted fewer restrictions on how that money would be spent. Accountability was not to be achieved through central control but through monitoring and evaluation of performance by the CRC. If a State or Territory or the Commonwealth was not performing, that would be revealed in the reports of the CRC.

In a sense it was to be a name and shame process. Governments found to be underperforming would be forced to explain themselves to their electors and hopefully encouraged to take steps to remedy the situation. Accountability was to be achieved through transparency and politics rather than bureaucracy and control.

In addition, the COAG Reform Agenda has also made provision for National Partnership Agreements to support the delivery of special projects or to facilitate specific reforms in particular areas. There are 125 partnerships, and a number include reward payments for the achievement of specific outcomes. Although the indicators are agreed upon by all sides and independently monitored by the CRC there is a direct financial accountability to the Commonwealth. In fact, these agreements are starting to look like the pre-2007 Special Purpose Payments that so offended the principles of co-operative federalism and prompted reform.

The intellectual basis for the 2008 agreement was provided by the Victorian Government with their report 'Government's Working Together: a better future for all Australians'² and then later with a special report to the Labor party on Special Purpose Payments, which suggested that 'the Commonwealth should be engaged when there are genuine national interests at stake, but only to that extent'.³ Both were explicit that the need for money from Canberra for the States and Territories to deliver on their constitutional responsibilities should not create a one-way street towards more Commonwealth control.

This genuine attempt to establish a form of co-operative federalism hasn't been as successful as the reformers hoped. Some say this is because too many issues were made the subject of co-operation, making it too difficult for the states and territories to find the time and resources to make it work. Others say old habits die hard, with the Commonwealth tempted by control and the states and territories by the blame game. However, these shortcomings don't mean that we should return to a more politicised way of governing our federation. Firstly, the COAG system does bring a sense of purpose and a regime of accountability to important areas of service delivery: a big improvement on the blame game. For example, governments now respond through COAG to reports of the CRC and there is considered commentary around both the reports and the responses.⁴ Secondly, it has facilitated more interest in and serious attention to the relevance, accuracy and timeliness of information needed for good decision-making and critical evaluation.⁵ Good information on performance is crucial for those serious about sustainable change, and the increased focus on providing and improving such information has been very welcome.

Is it possible for the Commonwealth itself to develop and implement a strategic plan for the nation that goes further than the current reform agenda? Could such an approach be a cross-partisan exercise, not just between the major parties but within the Parliament overall? Is it possible for all sides of politics to agree upon a style and approach to government even though they differ amongst themselves on objectives and policies?

POLITICS AND ADMINISTRATION

The answer to this question lies beneath the surface of politics. Are there levels of agreement that would make national planning a feasible option?

This question takes us to the traditional Westminster-inspired distinction between politics and administration.

In Australia the practice of politics by all sides is a mix of policy and populism. If one was to observe a Liberal leader's office and a Labor leader's office in action they would look remarkably similar. Media advisers have become more important than policy wonks and pollsters more important than ideologists. It's not that ideology and policy don't matter but that they compete for the attention of the politicians in a world of communicative abundance.

Interestingly this pushes both sides a little closer to each other – in reality if not in rhetoric – with both wanting to please the electorate and demonstrate that they are listening. A number of insiders have expressed the view that our politics lacks ballast, and that the search for short-term political advantage and headlines on a daily basis has drowned out evidence and the long-term.⁶ Indeed it is often presented as if it is coup d'état carried out by the unworthy over the principled. Serious politicians understand, however, that this can never be enough and that leadership is required to address longer-term issues – leadership that may mean confronting rather than pandering to vested interests.

Although it is an example from an earlier time, the National Competition Policy of the 1990s did show that there was another way. The introduction of National Competition Policy involved a wide-reaching microeconomic reform program that removed restrictions on competition not only within the economy but also within government itself. It was prompted by a belief that we were no longer 'the lucky country' and productivity had to be improved in the era of globalization. The idea that market reforms were essential to that end became the consensus view amongst significant numbers of the political elite, with the Hawke-Keating Governments leading the way. They reached out to their political competitors, the other levels of government and the community to seek change in our laws and policies. These changes weren't – and couldn't – be imposed without negotiation. The existence of state governments (and bicameral parliaments in all but one of the states) ensured that reform proposals were given a thorough working over. In order to oil the wheels of progress in such an environment the Commonwealth created financial incentives for the States and Territories to move to a more market-based economy in their own jurisdictions. Although not fully comprehensive, it was a plan built around a policy agenda and a regime of accountability, and it did produce positive results for the nation even when the transaction and adjustment costs are taken into account.⁷

When it comes to administration there are themes common to Labor and the Coalition and they offer hope for the view that there is a better way. Three stand out for further analysis – centralisation and co-ordination of policy, the commissioning of services and performance management of individuals and agencies.

CENTRALISATION, COMMISSIONING AND PERFORMANCE MANAGEMENT

From today's perspective the governments of thirty or forty years ago are almost unrecognisable. Gone are the mandarins, gone is the strict separation between private and public and gone are the 'pre-MBA' methods of review and control. It's a new world of managers, commissioned services, performance

management, and influential ministerial offices. However, all of this required the political class to assert its authority over the bureaucracy and that meant a shift in power to the central agencies of government. Thus the Leaders' Offices and the Departments of Prime Minister and Cabinet and Premier and Cabinet have taken on more power, at the top next to Treasury. Governments today also have more control over and influence within the Public Service, with the appointment and dismissal of departmental heads effectively in the hands of the Prime Minister or Premier. The mandarins of the past have become the managers of today and the sources of policy more diverse and more overtly political.

The report of the 1976 Royal Commission on Australian Government Administration commissioned by the Whitlam Government set the direction for the future of policy co-ordination and the institutional changes needed to make that co-ordination a reality. Labor had been out of power since 1949 and the Whitlam Government wanted to mobilize the public sector to change the nation. What this meant, as Richard Neville Spann once observed, was that ministers and senior officials became 'more mixed up in the enterprises of government administration'.⁸ And indeed this is what has happened. For the old guard of mandarins and their ministers this is out and out politicisation, but for the modern technocrat it is simply the elected arm of government asserting its control over what can and can't be done and who can and can't do it. Certainly it has undercut the traditional Westminster concept of ministerial responsibility, with public servants these days sharing responsibility for what happens (or doesn't happen) with their ministers. Judgment calls about who is or isn't to fall on their sword in the event of crisis or controversy are now well and truly in the hands of the Prime Minister or Premier.

Secondly, we have witnessed a transformation in the way services are delivered. The best word to describe what has happened is 'commissioning'. Governments may commission their own agencies to deliver, or they may use the private or not-for-profit sectors. They may choose straight forward contracting out or more complex models of partnership and co-operation with other levels of government or the non-government sector.⁹

What we see then is not a public sector set aside from the community and the private sector but a public sector intertwined with both. It's a case of governance and networking rather than just government and regulating. Once again the traditional lines of accountability we associate with Westminster have become blurred with a range of agencies – government, not-for-profit and private – responsible for the outcomes achieved.

The intellectual basis for these developments was the 'New Public Management' revolution, which saw the creation of a purchaser/provider split and more contracting and partnerships being added to the practice of government. Privatisation, corporatisation and public/private partnerships did come with New Public Management but did not define it. Co-production, involving the sharing of service delivery between professionals and clients, their families and neighborhoods, has also been added to the mix. Just as modern government mixes up politics and administration, it also mixes up governing, citizenship, and the public, private and community sectors. We have, as John Benington has so wisely observed, a mixture of hierarchies, markets and collaborative networks.¹⁰

FAST FACTS: new public management

New Public Management describes a major shift in how the public service was organised across many developed countries since the 1980s. Broadly speaking, it describes a restructuring of the public service along more market-oriented lines. At the Commonwealth level, New Public Management has:

- placed service provision by the public sector in competition with service provision by the private sector, outsourcing much service delivery to businesses and and non-profits in the process
- devolved aspects of public sector management to individual agencies
- introduced an approach to performance management and workplace bargaining that more closely resembles that of the private sector

Supporters of New Public Management argue that it improved the efficiency and accountability of the public service. Critics argue that it eroded the in-house expertise of the public service, undermined 'frank and fearless' advice by public servants and encouraged them to treat politicians as bosses and citizens as customers.¹¹

Thirdly we come to the development that attempts to put meat on the bones of this complex pattern of delivery and accountability – performance measurement and management. Government, we are told, needs to be ethical, efficient and most importantly, effective. In other words it needs to do things properly and efficiently but also with clear and demonstrated results for the community. Attached to each of these objectives are indicators of performance – some quite precise and some less so – that will be applied in relation not just to the agencies of government but the individuals working within them.

In many ways it was inevitable that measurement and management of performance would come to the public sector. In the private sector it had become common practice as part of a range of initiatives like strategic planning, management by objectives and total quality management and it wasn't long before the public sector became interested not just as matter of academic inquiry but as a management necessity. Indeed both political forces and managerial considerations were involved. Budget pressure put financial performance on the agenda and continuing social inequality and declining trust in government put service performance and ethical performance on the agenda.¹²

There are, of course, different versions of performance promoted by the Right, the Left and the Greens. The Right say it is economic performance and economic growth that is most important, the Left seek social inclusion and the Greens environmental sustainability. More frequently though, contemporary government is seen in terms of the triple bottom line of economic, social and environment objectives. The disagreement is on how these results are to be achieved. Is growth dependent on markets and competition or investment and education? Is social inclusion a matter of rights and opportunities or capacities and skills? Is environmental sustainability about less consumption or new technology? There is as much debate *within* the fields of economic, social and environmental policy as there is *between* them over what is most important.

IDEAS WE NEED NOW

We need to ask not just about different objectives and theories but also how they are to be achieved and applied. In particular, we need to ask whether there can be agreement on how to imagine and create modern government, whatever the objectives and policy choices. Is it possible to start with the elements of agreement outlined above – centralisation of policymaking, commissioning of services and performance management – and improve on their application? If there can be widespread agreement on these aspects of government, why can't there be agreement on their incorporation into a national plan? Indeed, these developments are consistent with, rather than in contradiction to, a strategic plan – it's just that the objectives would become national, the commissioning (both internal and external) would be more widespread, and the evaluation more comprehensive. Why shouldn't we oblige all our governments to adopt a plan setting out what they wish and what they believe? Would it not be of value for our national government to follow such a course?

The decline in political trust we have seen has created difficulties for governments needing to address complex and controversial issues related to productivity, social inclusion and climate change. The reasons for this are complex and it would be wrong to call it a crisis. The best explanation of the problem, says Andrew Leigh, is 'falling interpersonal trust, a trend towards post-materialist values and the changing role of the media'.¹³ Whatever the cause, it has placed a significant weight on the shoulders of governments keen to change agendas and policy priorities.

How, then, might a National Plan help? Firstly, it would add a new layer of accountability focused on whole-of-community outcomes. Secondly, it would introduce more professionalism (and evidence) to the policy making and implementation process. These are not new goals. Many players, both within and outside government, pursue them in one way or another – the Auditor-General, the Canberra press corps and Royal Commissions come to mind. However, what is missing is a transparent institutional framework and process for setting objectives, outlining the policies, programs and partnerships needed to achieve them and trusted, credible mechanisms for monitoring and evaluation. It's what many companies and NGOs do and, importantly, it's what local and state governments in Australia have been doing.

By incorporating these elements into their practices governments are requiring themselves to be clearer on what they wish to achieve for their community and on how they expect their particular policies and programs to do this. Ideology doesn't leave the scene, nor does the politics associated with it. However, it is brought down to the ground and its adherents are required to clearly define what success or failure would look like. When combined with the independent monitoring and evaluation of performance, this kind of public planning complements the politics of ideas with what we might call the politics of evidence.¹⁴

CASE STUDIES – SOUTH AUSTRALIA AND CANADA BAY

By its very nature, strategic government of this sort has ends that are whole-of-community and means that are whole-of-government. A good example is South Australia's State Strategic Plan which was launched in 2004

following a State Economic Summit.¹⁵ It has seven strategic priorities to be reflected in the work, budgets, policy making and legislative agenda of the government. Linked to these priorities are 100 'specific and measurable' targets. An independent Audit Committee is responsible for reporting on whether the targets have been achieved.¹⁶ This Committee reports on progress every two years.

The SA Strategic Plan is not fixed in time but continues to be revised and renewed in consultation with the community. Interestingly, non-government organisations, including the private sector, can sign up. For example, Anglicare SA and Uniting Care Wesley Adelaide have agreed to align their services in Adelaide's South to achieving the Plan's early childhood target – just as government agencies are required to do.¹⁷ A Community Engagement Board oversees these government/non-government partnerships and also promotes the Plan throughout the community.

In effect, an effort is being made to re-organise government around the strategic goals and priorities outlined in the plan. It is assumed that they can be adequately defined and measured so that success and failure can be reported on and it is expected that ministers and their departments and agencies will co-operate in the endeavor. The role of the Leader and his or her central agencies becomes even more important as keepers of the faith and drivers of change – always a challenge in a system where the units of administration are set up more as silos than networks. Government is organized around functions but we want all the parts working better together to achieve outcomes that matter to the community. The practice of strategic government helps to that end.¹⁸

In some cases strategic planning at the local or state levels is a top-down exercise, but more frequently we are seeing governments opening up and involving the public more directly in the process. The public may be asked to help determine priorities or to evaluate policy options or to judge performance. Sometimes only known stakeholders are consulted and sometimes citizens are randomly selected to participate in a deliberative process. Sometimes advice is sought but not necessarily agreed to and sometimes the government agrees to act on recommendations given to them by the community. In the South Australian case community consultation has been important – if only because the community itself is expected to play its part in the realisation of the goals – but it hasn't been simple to manage the tension between representation and responsiveness. Feedback was sought and considered, and the plan adjusted accordingly, but within limits set down by the Government.¹⁹

It's hard to imagine this tension between top-down and bottom-up going away. It comes with the territory of strategic planning and isn't argument against it but a challenge to be managed at both the political and administrative levels of government. That means being honest about the limits being set and why they are needed in a world of conflicting interests and scarce resources.

There is, however, another way. A more radical devolution of power to the community has been used by state governments on specific questions and by the City of Canada Bay in New South Wales for planning service delivery and funding.²⁰

In 2012 Canada Bay went beyond an 'inform and consult' approach to its budget planning and used deliberative democracy as a tool of engagement. In

an Australian first the entire budget was opened up to review by a Citizens' Panel and the Council agreed to accept the recommendations that followed. The process involved a randomly selected group of citizens as well as a randomly selected Staff Panel. The New Democracy Foundation played 'a major role in this process, initiating and setting the broad design, recruiting panelists, participating on the oversight committee, attending all the sessions of the Citizens' Panel and handling panelists' questions outside of the formal sessions'.²¹ Engagement needs to be done properly to deliver on its potential.

The Citizens' Panel was provided with extensive information on Council services and met over five sessions, each running for 5 to 7 hours in a three-month period, assisted by independent facilitators. The panelists also participated in an online discussion forum. The Staff Panel met three times, each session was facilitated by the Council's manager of Corporate Strategy, and their report was presented to the Citizens' Panel as advice to be considered. Interestingly the Citizens' Panel recommended to the Council that the final report of the Staff Panel be considered alongside its own. In their final consensus report the Citizens' Panel agreed that rate rises of up to ten per cent per annum were tolerable as long as other income-raising initiatives and identified inefficiencies were first addressed.

What we are seeing here are not Soviet-style plans that involve central control over delivery and outputs across the economy but rather outcomes-based government which sets objectives but leaves room for innovation in delivery. Indeed the private market and voluntary initiatives are not excluded as preferred options in particular areas or as a means to open up government services to competition. What's important about this approach is that it opens up a real dialogue within government – coupled with a lesser or greater degree of community engagement – about the choice between competing priorities and policies and what is needed for the independent monitoring and evaluation of their performance.

It brings more systems thinking and professionalism to government, invites a wider range of inputs to the process and encourages politicians to be more evidence-based in their approach to policy-making. It provides the political class with a narrative about the purposes and processes of government and a means to report on what is being done and what is being achieved.

Why, then, has the Commonwealth balked at such an idea – even though we can see glimpses of it in the COAG Reform Agenda and in the forward planning of the budget? Particular government agencies prepare their own strategic plans and are being required to involve the public in their formation and evaluation. However, coming up with whole-of-community objectives for whole-of-government activity has until now been seen as too hard.

POLITICS, POLICY AND ELECTIONS

The explanation lies in the distinction between politics and policy. The deeply adversarial, ever-changing and media-soaked nature of our national politics makes governments reluctant to lock in a policy strategy and priorities. The view that the world is forever changing and emerging events can't be ignored reinforces this reluctance. However, as Demos and the Victorian State Services Authority established in their publication 'Towards agile government', a strategic plan doesn't preclude the agility to respond to changing circumstances.²²

The issue may well be a deeper one involving the type of accountability required by a public plan.

Access to relevant, timely and accurate information is crucial for a plan to be properly monitored and evaluated. In today's politics the government is in a constant battle with the media over information and more importantly the interpretation of information. It's a battle royal and it is going on literally every day; with the government pursuing 'their story' and the media 'the real story'. The media accuse governments of spin and governments accuse the media of considering material out of context.²³

In a world in which ministers are being advised to make sure they preserve flexibility and are forever campaigning, strategic planning, implementation and evaluation seems a hindrance rather than a help. 'It may set a course, but what about bad weather?' ask the skeptics. Others say: 'Outcomes take years but headlines are needed for tomorrow and the initiatives that follow the day after'. In many ways the battle within the heart of government between policy wonks and spin-doctors and between strategists and tacticians is just as important as that between the political parties themselves.

It has also been said of strategic plans that they take away from the accountability that comes with elections. According to this theory of democracy plans are put forward in an election and it is the responsibility of the winner to see to it that they are implemented, whether directly or through negotiation. Why, it is asked, should governments initiate a planning process after an election that has given them a mandate to implement their policies?

The answer to this is simple – this is what happens anyway and it has to, given the importance of institutions like COAG and the Senate on the one hand and the influence of interest groups and public opinion on the other. Not all of the promises made in an election campaign are wrapped up tight in specific policy proposals – new goals may also be part of an election platform. The real issue is – will governments tackle these challenges and find these new policies on a case-by-case basis or will they initiate a whole-of-government process? Under an ad-hoc approach the earliest and easiest decisions are often given more resources than might be justified from a whole-of-government point of view. An easy decision made today may preclude a harder, but more important one, being made tomorrow. Setting priorities can't be a rigid affair but nor should it be a moving feast.

In saying all of this, it has to be acknowledged that the politics of planning aren't easy. Voters do expect governments to perform on their promises quickly and decisively and for their part governments will have some priority issues that are matters of principle. However, there are many aspirations and policies that are still in the embryonic stage during election campaigns that would benefit from the discipline of planning: defining the desired outcomes, crafting policies to achieve them and setting up independent monitors to report on progress. Good policy does need time and a formalised planning process provides more of it than issue-by-issue politics.

It is also true to say that it would be a more complicated affair for the Commonwealth than it is for the states, territories and local government. Canberra needs to have the other levels of government on side and in agreement

on the outcomes being sought. Federalism doesn't preclude the setting of national objectives but it does make their implementation a testing exercise. Despite trying for some time now Canberra does not have the same quality of institutions and agents on the ground and in the suburbs, towns and communities throughout the nation as the other levels of government do. As with the COAG Reform Agenda the instinct to facilitate rather than control is needed, but that doesn't come easily in a system soaked in the politics of blame. For their part the States are constitutionally protected and keen to be seen as acting on behalf of their citizens even if that leads to what others might call bloody-minded and uncooperative behavior.

WHAT DOES A PLAN MEAN? WHAT WOULD IT OFFER?

To make a national plan work, the government would need to make a commitment to medium and long-term processes, to build constructive partnerships in many areas and in many places, to be more open to what the evidence is telling it about how to achieve better outcomes for the community, and to be comfortable with genuinely independent performance monitoring. Some new institutions will be needed, such as we have seen in South Australia with the Community Engagement Board and the Audit Committee. More work will be needed on the definition, collection and dissemination of information.

It's a big call. But it's a call worth making in the face of declining trust in politicians and government. Politicians are seen as cynical and governments as ineffective. A more explicit process for translating the governments' and communities' priorities into policies and for judging those policies against independent evidence of what works could be very helpful in rebuilding trust. Rational, evidence-based processes need not supplant values-based, responsive politics - they could enhance them.

Incorporating a process of strategic planning into the work of the Commonwealth may lead to the conclusion that there is more that different parties agree about than they have ever imagined. Politics isn't just about values like equity and efficiency but about how values are to be realised in the real world, and when evidence is brought to bear we often find that the two sides are closer together than might initially appear. This was certainly the case with competition policy in the 1990s. However, many important issues remained the subject of ideological contest, for example the size and nature of the social wage deemed necessary by Labor to allow it to happen.

Evidence is not – nor can be – everything, but it should matter. It should matter that governments think seriously about what is important to people: how to reduce unemployment, combat violence in society and preserve the balance between acquisitive men and women and their environment for example. Strategic planning puts into place formal mechanisms for doing this and for reviewing the decisions made about what is thought to work. Due to their particular ideologies different governments will have different views on how far the reach of strategic planning should go, conservatives believing we can only influence outcomes up to a point (limited government) and radicals believing that we can go a good distance in reshaping human existence (holistic government). However, strategic planning is not something that should frighten off any but the

most fundamentalist of politicians. In fact in New South Wales a transition from Labor to Coalition hasn't seen the demise of state planning even though there are differences between the two plans²⁴

Disagreements over the right approach to government planning are inevitable, especially on the extent to which democratic engagement could be used to assist in the process. Some may wish to use engagement only to deal with new and complex issues while others may say it should become an overarching principle of government. However, if both sides can agree that a plan incorporating objectives and strategies as well as a means for evaluating performance should be put into place, the debate about these things ought to be more disciplined and constructive.

It is true, of course, that such a commitment may lead the Commonwealth to overreach as it tries to achieve national objectives in a federal system with devolved powers. This criticism has already been made of the COAG Reform Agenda. However, in a properly outcomes-based approach to government the issue of how far the Commonwealth should go to achieve its objectives would itself be on the table. It would be discussed as part of the strategic planning process, along with the broader issues of roles and responsibilities and any evidence we have about the benefits of federalism for efficiency, innovation and performance generally.²⁵

CONCLUSION

The bottom line is that the centralisation of policy making within the executive, the commissioning of services and the use of performance management – common to all sides of politics – has paved the way for a strategic approach to governing. We have seen it work at both the state and local levels of government in Australia. It can mean adding democratic engagement to policy-making, solid evidence to the commissioning of services and outcomes-based assessment to performance management. It doesn't mean handing over government to the technocrats but it does put more discipline around the practice of politics within government, be it traditional turf wars between departments or conflicts within ministers' offices between those who back evidence and those who back opinion. It also means information about performance becomes crucial – as does the independent interpretation of what the information tells us. It doesn't mean an end to ideology, but it does ask believers to reflect on their assumptions when confronted with evidence about the actual consequences of their implementation.

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