

Here's a blueprint for the next government

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*The next government will have to face a number of "tough decisions" writes **John Daley**.*

Election campaigns are rarely about the tough decisions that will make a real difference to Australia's future. During elections, political parties focus on "narrowcasting" to the minority of voters who can be induced to change their vote in the clamour of the campaign. Tough decisions usually take longer to think through and require more complex trade-offs.

For whichever party is elected to govern the country on August 21, taking principled but tough decisions that respond to the emerging challenges and endemic difficult problems will define the character of the government and their contribution to Australia's history. What might this look like?

Principled decisions aren't necessarily decisions driven by a single metric. Economic growth and income per capita are not the purpose of government. Rather, they are important means to a number of ends. Government must ensure everyone has access to basic necessities – food, water, power, shelter. Government also aims to enable people to flourish and to define their own lives. Individual fulfilment is also driven by the extent and quality of social interaction. In part this is promoted by people feeling physically safe – an important role for any government. In part it arises from community organisations and spontaneous associations where government's greatest contribution can be to stay out of the way. And in part it is a consequence of the definition and design of public space where government often plays a vital role. Government must also weigh the value of sustaining the environment and the interests of future generations.

Our government elected on August 21 will need to acknowledge that these values often conflict, and that good policy is about striking a balance. However, a good government would also aim to exclude from the balance the tendency to overvalue vested interests so that it can focus on the common good of all Australians by treating existing and potential interests in a more balanced way.

Of course a good government will also need to prioritise. Reform is always harder than it looks, political capital is scarce, and successful implementation requires focus. The decisions likely to make the most difference include reforming teaching, continuing economic restructuring, introducing carbon pricing, and rationalising welfare and tax regimes.

There is emerging evidence that education outcomes are the dominant driver of economic progress (and all this enables) as well as the door to personal opportunities, social interaction and environmental understanding. We need more robust evaluation, development, recognition and management of teachers to increase accountability and improve recognition. Both Liberal and Labor federal policies seem to be moving in this direction, but the slow pace of change over the past two decades illustrates the power of vested interests.

The elected government also needs to continue the process of economic reform. Ports, international aviation, agricultural marketing, books and pharmacies continue to be regulated in ways that benefit incumbents and limit competition. We need to improve infrastructure, particularly transport, where the investments tend to be large, and the payoffs very long term. And our complex social welfare and taxation system requires simplification. This might result in a few people being marginally worse off, but as a community we would be better off eliminating the substantial dead-weight costs of administration and the churn of payments to taxpayers.

The elected government will also need to respond to a number of long-term trends, particularly high terms of trade, an ageing population, and carbon pollution. Europe and the US have high government debt that must eventually be repaid. This will be difficult because their GDP growth is slowing as the number of working-age people reduces – and in many parts of Europe the total population is starting

to fall. As a result, their economies will slow, and their living standards will slip behind. By contrast, China, India, and South Asia are likely to continue to grow. If demand for Australian resources is maintained – as seems likely – the terms of trade (the ratio of export prices to import prices) will remain high and imports will be cheap, but it will be difficult to export goods and services from Australia unless they have unique attributes that can't be bought elsewhere. The elected government will also need to ensure that labour market restrictions don't discourage the movement of jobs from struggling sectors to successful sectors, or else we will simply waste some of the material benefits of the mining boom.

Governments continue to be very reluctant to talk about the obvious tough decisions that will make a big difference in the light of our ageing population. Although eligibility for the pension will gradually rise from 65, [reaching 67 in 2023](#), lifting the eligibility age substantially further – and sooner – and lifting the age at which people can access their superannuation would radically change the economic impact of an ageing population.

Working later will not solve the issue of providing aged care for many in their 70s and 80s. There is general acknowledgment that this requires increased care in peoples' own homes rather than just building more nursing homes. However, a shift towards this model must deal with federal-state cost-shifting issues that have bedevilled previous reforms.

Whoever is elected Saturday must acknowledge that carbon pollution is a problem. But we shouldn't assume that because it is important, it will be a radical change to how we live. Reducing carbon pollution will have less impact on jobs, prices, and peoples' lives than many of Australia's other economic reforms in the past two decades. Getting started through (say) a \$25 levy per tonne of carbon dioxide pollution would be lower cost to the economy than many of the direct action solutions proposed, and would have minimal impacts on jobs, even in most carbon intensive industries such as alumina refining and LNG production. The tough decision would be to minimise the relief for these carbon intensive industries so as to maximise the incentives to reduce emissions where they are most needed.

None of these problems is new. What might the government elected on August 21 do differently to get a different outcome? First, to minimise the disproportionate influence of vested interests, it could insist that it will put more weight on public statements by companies rather than private lobbying by industry associations. Company public statements are subject to the discipline of the market and shareholder disclosure laws, which focuses the mind on ensuring that they are accurate and not misleading. Second, it could implement real discipline around piloting programs, measuring the outcomes, discussing the outcomes publicly, and rolling out the successes. This requires putting real effort into measurement at the same time that the program is designed. It exposes the government to greater criticism when things don't work perfectly. But it creates public support for success, and good design in the long-run. It recognises that public support depends on winning both hearts *and* minds. Only then can governments take the tough decisions that will make a big difference to Australia.

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