Election 2013 Issues: How we make our money

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Abstract
Welcome to the The Conversation's Election 2013 State of the Nation essays. These articles by leading experts in their field provide an in-depth look at the key policy challenges affecting Australia as the nation heads to the polls. Today, we examine the economy – from the drop-off in mining revenue to the future challenges of supporting baby boomers into old age.

In the well-known biblical story, Joseph correctly interprets Pharaoh’s dreams, foreseeing that seven years of abundance will be followed by seven years of dearth, and plans accordingly. While the people of the ancient world had the wisdom to understand that good times do not last forever, modern democratic politicians do not. Herein lies the paradox of the current election.

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The mining boom is over but our political leaders have refused to acknowledge that bad times may be coming. Image from shutterstock.com

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In the well-known biblical story, Joseph correctly interprets Pharaoh’s dreams, foreseeing that seven years of abundance will be followed by seven years of dearth, and plans accordingly. While the people of the ancient world had the wisdom to understand that good times do not last forever, modern democratic politicians do not. Herein lies the paradox of the current election.

The mining boom was never going to last for ever. There was a clear need to use some of the abundance to guard against the lean years which would inevitably follow. Peter Costello, who knows his Bible very well, seems to have been the only politician in Australia to have understood this need with the establishment of the future fund.

The fundamental principle of politics, as of economics, is scarcity. It is all about the allocation of scarce resources. As the amount of money available to a government to spend increases, so does the size of the appetites of those desiring that it be spent on them.

When there is a lot of money, there is a tendency to be generous; in fact, too generous. Over the past few years there have been considerable increases in the salaries of both politicians
and the higher levels of the public service. Moreover, there has been a substantial increase in what is known as “classification creep” in the public sector.

Classification creep isn’t a new problem, but it’s a growing one. Image from shutterstock.com

Classification creep is the process whereby the level of position required for the work being performed moves upwards such that people are paid more for doing the same work. It is not a new problem.

I can remember it being a problem when I was an administrative trainee in the late 1970s. But it appears to have become an even bigger problem in recent times.

Australians and their politicians have become conditioned by years of having the funds flow in from the mining boom. They have become used to having the purse strings loosened and find it difficult to adapt to more difficult times.

The real problem is that our political leaders have refused to acknowledge that there may very well be bad times coming. The public has not been prepared for a discussion which focuses on the need for possible economies in the years to come. The discourse of the election still assumes that a Commonwealth government would continue to spread its largesse around the country.

**Future challenges**

The real problem is that both parties are still looking backwards rather than forwards and have under-estimated the challenges ahead, especially as the Australian population ages. There are very real issues regarding the continuing growth of health and welfare costs, for instance.
As baby boomers retire, superannuation becomes a more pressing issue. But by and large it has been relegated to the background in this election, with Labor declaring no changes for the next five years and the Liberals pledging to delay the superannuation guarantee increase for two years. Both parties, however, remain committed to continuing a system of compulsory superannuation.

Those over 65 are growing as a proportion of the population, generally they are quite affluent, and they tend to be concentrated in those regional seats which both parties need to win if they are to form government. They are a force with which any future government will have to reckon.

Despite these challenges, the current mentality of the political class in Australia is such that it largely refuses to face up to the future.

Over 65s are for force to reckon with. Image from shutterstock.com

Hence the Labor Party regales us with the comforting knowledge that Australia is doing better than most other comparable countries. They seem to believe that cutting any number of jobs in the public sector is about the worst thing a government can do.

The Opposition talks about “growing the economy” but without any clear thinking about how this will be done.
The economy may be one of the major issues in this election but there is little discussion which touches base with the reality facing Australia. Instead, we have ideas pulled out of hats such as Kevin Rudd’s idea for a special economic zone in the Northern Territory.

Rudd has admitted the mining boom is at an end but has not specified what will replace it. Abbott has been similarly vague about how the various sectors of the economy will become dynamic and productive. He seems to assume that what is needed to stimulate business is a reduction of regulation and red tape. Neither side of politics seems to be able to explain how manufacturing industry will once again grow.

Sure, Labor wants to continue subsidising the car industry but such a move looks backward rather than forward. It only delays the day when Australia once again becomes a place where cars are not made. It is about saving jobs in the short term, not creating new long-term positions.

If a government wishes to stimulate industry growth, it needs to do two things. The first is to create an environment in which business is able to flourish and take risks in the development of new products. In this regard, Abbott is right: excessive government interference prevents business from reaching its full potential, both in terms of innovation and productivity.

The second is to ensure the education system produces young people who have the capacity and attitude required in a competitive world. The response by both sides of politics to the failings of Australian education has simply been to spend more money rather than being concerned with its quality.

A productive economy requires a workforce which possesses skills in technology; one wonders if our two political leaders with their degrees in languages, law and economics have a proper appreciation of the importance of technical education.

But governments cannot create a prosperous economy. They can only help to provide the environment within which individuals can flourish and create new products, thereby building new industries. Both sides of politics appear to accept that such industries are needed but
their vision of just how this will occur remains vague and fuzzy – it’s based more on rhetoric than a vision of the future grounded in reality.

**Conclusion**

Serious discussion about the economy, the financial circumstances of the government and what can seriously be done will only commence after 7 September, and Mr Punch is put back in his box.

If scarcity is the fundamental condition for any government, then its leader must develop priorities about how it will use its scarce resources. This is not an ideological issue but a pragmatic one. There will be increasing demands on governments as the population ages, especially in such areas as health, with sufficient funds to meet those demands.

In short, future governments will be asked to do more and more. And they won’t be able to rely on a surge of incoming revenue such as characterised the first part of the 21st century. They will have to make hard choices.