The Vision

The economic statement is Labor's crunch time. But the task has been formidable. Hemmed in by economic constraints, Labor still has to show a clear change of focus. ALR assembled a roundtable discussion to discuss the task.

Peter Baldwin is the federal minister for Higher Education, and minister assisting the Treasurer. Anna Booth is the federal secretary of the Clothing and Allied Trades Union. Peter Robson is joint national secretary of the Public Sector Union. The discussion was chaired by David Burchell and Sue McCreadie.

Much of the response to the Coalition's Fightback package has been specific and fairly technical: the government has tried to find holes in the figures; other critics have tried to determine the end-effect on income distribution of all the various new flows of money entailed in the package. From the point of view of the public debate, though, these sorts of responses presumably only have a limited impact. What are the areas in which the labour movement can attack the GST package at the levels of principles, of generalities, of directions, of visions?

Peter Robson: My view on the question is that the politics of it revolve around the government taking on the vision of the role of the state embodied in the package—a vision which involves the question of further liberalisation of the economic environment. The situation really demands a new vision and a new way of doing things. Just as the old state socialism's dead, in my view, so is 'economic rationalism'; it's a failed economic formula. There's got to be some new thinking and different directions to break out of that mindset. That's what I hope Keating's got for us—because if he has, he's got a chance.

Peter Baldwin: The initial popularity of the Fightback package, it seems to me, stemmed from its success in conveying to the public the impression that it was, if only by virtue of the sheer weight of verbiage of its 600 pages,
an immensely substantial document. But if you look below the surface, of course, it’s not a very original document at all. The basic prescription of substituting a consumption tax for income tax revenue, and slashing public spending, is not an original one, and there’s absolutely no reason to suppose that that’s going to provide a solution to this country’s economic problems. As a general proposition, those countries that have introduced a consumption tax without some form of centralised incomes policy have had great difficulty handling the inflationary impact. In New Zealand, for example, when they introduced their consumption tax, they had to pursue an extraordinarily severe monetary policy in order to wring the inflationary impact out of the economy. They ultimately succeeded in doing that, but only at the cost of a five-year recession, and during that period they’ve gone from a country with relatively low unemployment, to one with higher unemployment than this country. So to suggest that the substitution of a consumption tax revenue for income tax, combined with expenditure cuts, is going to generate huge employment growth seems to fly in the face of experience. At the same time, it’s absolutely essential that we have a viable alternative set of policies and an alternative vision. And that clearly is what this economic statement is all about.

Anna Booth: From Labor’s point of view, on the other hand, the danger is that on the face of it the Fightback package offers what, until very recently, the government has failed to offer—a coherent program of reform. In fact, the present government has come out of a period of massive reform. And when you sit down and study the pieces, then the jigsaw does fit together to form a coherent picture. But that picture became blurred, I think, towards the end of the decade. And there’s not been a sense for some while now that Labor any longer has such a coherent plan.
Greg Sheridan in the *Australian* commented recently that the Fightback package raises the very basic question of the role of government in our society. He argues this is the debate we never had in the 80s—when we should have had it—and that the Hewson package now puts it firmly on the agenda. At the same time, the NSW government has now actually mounted a quite ideological campaign about privatisation. During much of the last decade, most of the arguments in favour of privatisation were managerial ones. But this campaign actually links privatisation with the fall of the Berlin Wall, and the idea that privatisation is about moving enterprises from the 'government' to the 'people'. How can Labor respond to that?

**Baldwin:** I’ve thought for some time that we on the Left ought to get a clearer perception of why we want certain sorts of enterprises to be in the public sector, and what we hope to achieve. We need to articulate a case for public ownership that’s based, in my view, largely around notions of market failure, and the need to correct for that. I think it’s a statement of the obvious that advocating public ownership as an end in itself, which of itself is going to produce desirable results, no longer washes. I think the role of public financial institutions like the Commonwealth Development bank is potentially very substantial. Up until now that potential certainly hasn’t been realised, but I think if we’re serious about restructuring and getting the debate about privatisation on to a different level, then we need to be focusing more on public financial institutions than we have tended to. We need to have a debate about what we want public sector institutions to do, and that has to include a rationale for keeping them in public ownership, not just simply affirming them in public ownership as a sacred goal in itself.

Paul Keating in the 80s was notorious for his statements about what size he could get the public sector down to. Yet not long after his accession he was making statements about how Australians historically expected a certain role for the government in Australian society.

**Baldwin:** Maybe that’s a sign of the times. I hope we’ve got past the stage where having a record small public sector to GDP ratio was a major goal of economic policy. That was fundamentally irrational and unproductive. I’m thinking here not only of this government, but governments worldwide throughout the 1980s.

**Booth:** I myself don’t think Australian business, and certainly Australian people, regard the role of the state in a mixed, capitalist economy with the sort of distaste John Hewson thinks they do. So what Peter Robson says is obviously correct. The economic statement has got to be comprehensive and it’s got to be visionary. It’s also got to be non-ideological—either in terms of economic rationalism, or indeed interventionism for that matter. It’s simply got to be a practical response to the problems that we face, with a realistic analysis of the world around us. And, if we can achieve that, we will find the Labor Party gets brownie points both from business and from the community. But if we don’t, then the Fightback package remains unchallenged, because it does present a coherent program—even though the detail of it can be proven to be quite appalling in its social consequences.

**Robson:** I think we’re heading in the right direction. Late last year, the Labor government was devoid of any clear-thinking and long-term policy. It was effectively being run by the two economic departments and the department of Prime Minister and Cabinet. The platform was basically an economic rationalist one, and the conservatives were promising more of the same, but dolled up with a new tax deal. Now, to everybody’s great cheer, Paul Keating is doing two promising things. Firstly, he is consulting outside Canberra, which is a very important first step. Secondly, I think, he promises in a modest way to put an alternative package together, one which is based on an increased role for the state, but also, just as importantly, starts to give some government support for industry in the broadest sense of that term. This economic statement will make or break the Labor Party’s hopes of getting through the next election but, more importantly, it will also make or break the next five years for Australia.
respects. He's been big enough to be prepared to make the change. I think what's important is that we learn from the mistakes of the 80s, but that we don't try to unlearn the basic lessons of the last ten years. For instance, if you take the infrastructure question, I am one who believes now that there is a significant role for the private sector in infrastructure-building. If you'd asked me that five years ago, I would have said that only the public sector should be involved in infrastructure. I agree now that we've got to encourage the private sector to get involved in infrastructure, because infrastructure is absolutely critical in rebuilding the economy—and you can wait for as long as you want to in the current environment for the public sector to take on that responsibility, and nothing will happen. We've still got to look at a lot of these questions in a different light from the way we would have five years ago.

Baldwin: My personal view is that in certain areas we do need to change direction. Throughout the world the inflation with small government, deregulation, privatisation and unrestrained market forces is on the wane. The great exception to that general statement is, of course, eastern Europe and the ex-Soviet Union—which, given the experience of their version of socialism, is understandable. But we have to recognise that those economies which have successfully brought about structural change of the sort that we're supposedly seeking to achieve, have not done it simply through reliance on market mechanisms. They have had governments prepared to intervene and to exercise strategic direction over the development of key sectors. There's certainly no simple correlation between economic success and the size of the government sector; that's been obvious for some time. Even in the United States there's far more preparedness to entertain notions of industry policy than was the case until recently. So in a sense Hewson's package is rather out of time. It would have been very timely—at least in terms of going with the cycle of opinion—had it been introduced at the beginning of the 80s. But I think Paul Keating, with his great rhetorical skills, will be capable of portraying it as travelling back through a time-tunnel to the 80s.

Booth: The issue of whether to say 'we've made a mistake and we're going to rectify it' is a big one. It is politically difficult for a government to concede that, on examination, its policies are patently not achieving their desired ends, that they are creating destruction rather than development. But this is what we have to do. And of all the politicians in Australia's recent history, Keating is the person best able to set the political environment, rather than responding to an environment set by others, so that he can say, with pride and confidence, that a change of direction is the only sensible thing to do—and win acceptance from the part of financial markets, business leaders and the community for that. What is more of a problem is that others will not allow him to do that, or not allow him to have the confidence to do it. There are so many people around him counselling against it, and yet that's just what has to happen.

Back in November and December, when John Kerin was treasurer, he argued that the correct response to the GST package was to point out exactly how radical a package it is, exactly how much it would affect people's lives—the assumption being that this sort of radical change is not something that Australians are used to, or will countenance. I detect from what all of you are saying that you don't consider the Kerin sort of response adequate.

Booth: There are two points here. The first is that we ourselves are talking about change. So it would be a mistake to use change as a bogey to appeal to people's sense of conservatism and fear of change, that would defeat our purposes. Secondly, so far we haven't managed to attack the Fightback package in its comprehensive, integrated nature. We have seen various ministers take on different parts of it, analyse them, and, in some cases—for example Ralph Willis with the Finance Department's analysis—do a pretty good job of pointing out the flaws. But it has to be examined in its entirety as well as in the context of the Coalition's other policies, because the agenda stretches further than Fightback.

Peter, you mentioned how small our public sector is by international standards. It's the same case with the tax take, isn't it? There seems to have been an acceptance on all sides of politics that we'll be a low tax country, and there's very little opposition to that. A lot of people are labouring under the illusion that they're paying high taxes, when the overall tax take is still very low by OECD standards. Yet people find the Hewson package attractive, because they think that their personal tax rate is set at too high a level.

Robson: Our overall tax rates are among the lowest, but personal tax rates may not be. In any case, we went through that debate in the middle of the 80s, and we lost it, in many ways. It's true that there are now more conservative and middle-of-the-road commentators pointing out that we're not highly taxed. But you can't realistically hope to bring back a high-tax regime, because basically people hate paying tax.

Booth: But they hate it more, Peter, when their wages are not growing. People's living standards have been falling for a number of years now, and up until last year inflation has been ripping the guts out of people's wage packets. It's true that people generally don't like paying tax, but they particularly don't like paying tax when they see their disposable income dwindling in the light of inflation.

Robson: I still don't think the argument's going to be won, certainly in the next few years. It's certainly right that it should be, because really the big sufferer from our limited tax take has been infrastructure. Infrastructure in Australia has deteriorated dreadfully over the past decade. And now we're paying for it in a big way.

You were arguing before, Anna, that responses to the Fightback package should be pragmatic, rather than ideological. As in other areas, on tariff policy Fightback takes an ideological position in favour of zero tariffs rather than a pragmatic one. Presumably a pragmatic policy would mean saying: you've got a certain goal, what sort of policy instruments do you need to get there? If we're looking at the past record of tariffs and admitting...
that some of that was negative, if we reimpose them, how do we do it?

Booth: It's a real shame that we've got to a point where we can't even speak about the selective use of barrier protection in those situations, as a part of an overall set of industry policies. No matter where you are, from the executive table of the ACTU through to the cabinet table through to the board of the Commonwealth Bank, it's an absolute anathema. And while I wouldn't advocate a wholesale return of McEwenism, I nevertheless think that it's quite appropriate at times to use selective barrier protection for particular periods of time and for particular sectors of the economy. And even, for some sectors, for a very long period of time.

Robson: Our scorched earth policy with tariff reductions is crazy

Robson: I must say I've become a bit of a convert back to tariffs. Look at our Asian trading partners: none of them have ripped their public sector apart, they've used the public sector as a basis for developing the private sector. And they have no qualms about tariffs: it's virtually impossible to get into their markets in many areas.

On the other hand, there are still some sound arguments against protectionism. Our future lies in Asia, and we've got to build up our export capacity for the region. You can't do that while you've got an inward-looking, conservative mentality, which tariffs do induce. So on the one hand I think our scorched earth policy with tariff reductions is crazy. We've got to have a selective approach, a more interventionist approach; I accept that. On the other hand, we've got to understand that we are part of Asia, a region with totally different expectations from ours, and we've got to start to orientate our manufactures and our service sector to that.

Booth: The other, much less convincing argument in the anti-tariff armoury is the resource allocation argument. This suggests that other Australians are paying for the costs of tariffs through the lack of resources being diverted to other industries. Well, we have to deal with the times we're in. We're in a recession, will be for perhaps some years to come. And there isn't exactly a range of industries knocking on the doors to make use of Textile Clothing and Footwear employers' money—or such of it as is left after the speculators have gone.

Obviously the Coalition's industrial relations strategy is the linchpin by which the whole Fightback package stands or falls. That strategy would abolish awards, remove legal recognition for trade unions, and entrench individual contracts into the industrial relations system. What sort of campaign can be mounted against it, and should that be a priority target for an election campaign?

Robson: It's going to be a very hard roe to hoe over the next 12 or 15 months. This slogan of individual freedom to negotiate, of employees being able to sign personal contracts with their employers, is not without its attraction to many people. And if we plan to go on just arguing against it on the basis of old-style unionism, we're not going to win the argument. But it is an absolutely critical question for the election, particularly in a period of recession. The Hewson package has certainly got to be exposed and we've got to be talking about our own industrial relations program.

Booth: Clearly there are a range of capacities and a range of outcomes already across the workforce, and therefore there is a range of interests—and we have to recognise all of them. As Peter says, there are some workers who would be attracted by the proposition of an individual contract. They would look to other workers who are already in that situation, and who are doing very nicely thank you. There are many people within the finance sector who have had their own individual contract situation for some time, and are very satisfied with it. Equally, in our situation in the TCF industries, there are classic examples which really personalise what havoc such a system would wreak for many many people. And so different parts of the union movement must bring to the fore their own experiences. We, for example, must dramatise the reality of outwork in the clothing industry, where individual contracts actually involve bargaining down, and the person who offers the least gets the contract. That's already reality, and we have to offer that as an example of what would be more generalised across large sections of industry.

I'd like to move us back to the economic statement. There is now a pretty heavy burden on the statement to present a visionary alternative to the Hewson package. At the same time there are obviously enormous constraints being placed around it. First, there's the current account constraint on how far you can stimulate the economy before starting to attract a flood of imports. There's also obviously market expectations: a magical figure of $2 billion is being thrown around. If it's more than $2 billion, according to some in the financial markets, then it's an 'irrational' statement. So guess the question is, within those constraints, how visionary can you be, and how clear a signal can you send?

Baldwin: It is true that we are heavily constrained by the balance of payments and external indebtedness factors, and it certainly is also true that the government can't disregard the behaviour or the likely response of the financial markets. Having said that, my view would be that we've got a bit more room to move than conventional wisdom would have it. I for one would not be terribly alarmed were this statement to provide a further slip in the value of the dollar. I think we can tolerate a further slippage in the exchange rate, and I think on balance that would have beneficial effects. I don't say that you can provoke panic on the financial and foreign exchange markets with impunity; there has to be a balance struck. And obviously I'm not in a position to talk about the magnitude of any fiscal stimulus, but I certainly think it should be substantial. It also needs to be rather carefully balanced. One possible way to go is to do it on the expenditure side, either creating
Baldwin: I acknowledge that the impact in TCF has been more severe than was originally anticipated, and I accept that we have to do something additional by way of assistance. But I don’t pretend that labour adjustment package was the be all and end all of solving the problems of workers in that industry. We have to create a general economic climate where people who are displaced have an opportunity to retrain and to find work elsewhere. Fundamentally, the jobs have to exist—and that’s the broad objective of the statement.

Robson: I’ve got two disagreements with you. First, it’s wrong to say the Left hasn’t considered the financial markets: we’ve been talking about structural adjustment and the money markets for ten years. In fact, quite frankly, the Left has sometimes lost total direction because it’s become so absorbed in the capacity of the money markets to affect things. I also don’t agree that the statement is just about setting the long-term direction and focusing on the restructuring of the economy.

Baldwin: I didn’t say it was: I said we had to strike a balance.

Robson: But there’s still an important difference in emphasis here. Too much emphasis is being put on the restructuring of the economy. The economy’s being restructured every day. Far more fundamental I think about this statement is that it needs to be a clear view from the government that it’s not going to leave it to market forces to do the job. It’s going to get involved itself, it’s got to start to rebuild various sectors, both for import replacement and for export purposes. And most importantly, it’s got to have emphasis on the here and now. I am dubious about labour market projects which are still focused on retraining. There have to be job creation programs as well. I’m happy to have them focused towards infrastructure and the tradeable goods sector. But when you go out into the country and the regional centres where structural unemployment is very high, if you keep focusing your job programs around skills development alone, there will be no impact on unemployment.

Baldwin: I don’t think I disagree with any of that. We have shifted the focus to some degree away from purely retraining. We’ve introduced a new program called Jobskills, which is a combination of work experience and training. I think we have a pretty good menu of programs now, and I think we’re in a position to provide better judgements about how those program elements should be combined. There is an argument about the scale of that activity. My personal view is that we ought to be doing those things on a much larger scale. The experience from a number of countries that use labour market programs on a large scale is that, contrary to the conventional wisdom throughout most of the 1980s, they have been highly effective in preventing the onset of long-term unemployment. I think we really do have to think about how we can avoid the creation of a class of people whose concept of the labour market is so distant and so tenuous that their employability starts to come into question. The social and economic consequences of that are quite unacceptable.

Booth: Should the government admit if policies aren’t delivering the goods—such as in my own industry, the TCF industry?

Baldwin: We’ve got more room to move than conventional wisdom would have it

Baldwin: I think we have to frankly acknowledge that there is no miracle cure for unemployment. There is a range of things that can be done that will in the short term improve the prospects of unemployed people, so that when the cyclical upturn comes they will be in a better position to take advantage of it. One of the lessons of the last recession was that even given a rather strong recovery it takes an awfully long time for people who have long durations of unemployment and who are otherwise disadvantaged to actually get back into the labour market. We have to offer these people some hope.

But it’s also obviously crucial that the statement set out a credible plan of action, a long-term vision, to help to engineer the types of longer-term structural changes we need to achieve in the economy. We have to state frankly what we think is necessary in order to put the country on a path to sustainable growth, and that’s going to take some time to bring about. And we can’t, in my opinion, simply disregard the probable response from financial markets and the foreign exchange market. On the Left we often tend to look at the response of those markets as something not worthy of attention. But I don’t think we can disregard them, because I think they have the capacity to fundamentally undermine and sabotage the whole process. It’s going to be a rather difficult balancing act.

Booth: Extra incentives to invest, with extra incentives to capital to bring forward their investment plans, underwriting those on the expenditure side with public infrastructure, labour market programs and so forth. My view is that while those elements have a role to play, we have to strike an appropriate balance, and one that doesn’t just seek to accelerate private sector activity, but also acknowledges that we have to do something worthwhile for the long-term unemployed, who, based on the experience of the last recession, tend to be the last to benefit. The question is, would the sort of fiscal stimulus that we’re able to provide, given all those constraints, can we do something really imaginative? I would think that we could, but it’s going to have to be rather carefully structured, and it’s going to have to be appropriately balanced. And that’s the hard part.

Robson: Peter, it seems unlikely that the package can create a direct reduction in the rate of unemployment before the next election. What do you think the most important features of the package will be, therefore, to sell to the Australian people?