



The dangers of becoming a little Europe in Asia

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Our political culture shows disturbing signs of Continental dysfunction

IN all our history, the thing that has set Australia apart from its region is its European identity. Now, our European political culture may have grown so profligate and internally contradictory that we may be all but unable to implement social policies we can pay for.

Geoffrey Blainey need never have worried about the Asianisation of Australia. Malcolm Fraser and the Greens can forget their concerns about Americanisation.

Instead, our political culture, and our looming economic dilemma, has become European.

Economic policymakers describe a tipping point at which such a large part of the electorate is directly dependent on government, not for infrastructure or education or traditional government services but for their primary income, that it becomes impossible, except in the most extreme crisis, to gain an electoral and legislative majority for any program that involves cuts to transfer payments and concessions.

Consider just these few telltale numbers.

When the Australian Bureau of Statistics first began its quarterly labour force time series in 1984, the largest single sector of employment was manufacturing. It stayed No 1 until a tipping point in 2002. In that year retail and manufacturing both employed 11.5 per cent of the workforce. From 2003, retail became No 1. Both retail and manufacturing are private enterprise activities.

In 2010 a new tipping point was reached. Healthcare and social assistance became the largest employer, with 11.2 per cent, displacing retail. Health and social assistance are dominated by government providers and government funding of private providers.

Last year, free market think tank the Centre for Independent Studies compiled figures on who works directly for government, or receives their main income directly from government.

Its figures are from 2010 but won't have changed much. Some 13.5 per cent of voters were employed directly in the public service. Some 16.5 per cent of voters receive a full or part aged pension, 6 per cent the disability support pension and 3 per cent the Newstart allowance. Altogether, about 35 per cent of voters get government payments. Somewhere between 40 per cent and 50 per cent of voters receive income directly from government.

Now consider something else. Although the Howard government was nowhere near as profligate as the Rudd and Gillard governments, it introduced or increased many direct transfer payments and a bewildering array of tax rebates and concessions. In one of its last reforms it made income from superannuation tax-free for people aged over 60. As the promoters of self-managed superannuation funds constantly point out, this means that, over 60, you can have a very big superannuation income and pay no tax. This is very European in spirit.

The most efficient tax system is one that treats all forms of income equally. One of the central features of the European social democratic model is its bureaucratic and financial complexity. This has many results. One is that quite affluent Europeans benefit directly from transfer payments or tax concessions.

They thus have an incentive to keep voting in favour of the bloated welfare state because, even though they are affluent, they get much of the so-called welfare.

Over-60s paying no tax means they have no stake in the tax system. There is no policy price signal, as it were, through tax. Narrow economic self-interest will tend to incline them to vote for political parties that promise the most direct benefits.

The old policy question - Can we afford this? - has no direct personal application. And of course they will resist losing tax concessions.

Some of the most affluent, and conservative, voters in society will tend to vote for programs that are profligate or, to be less judgmental, unaffordable and unsustainable.

Having just spent a month in Europe, I am struck by the Europeanisation of Australian political culture. Let me offer you one example of the irrationality of EU transfer payments. I met an affluent Australian who lived in London and owned a holiday home in Italy. For aesthetic reasons he planted some clumps of olive trees. Continued on Page 16 Continued from Page 13 On one visit neighbours told him that EU officials wanted to get in touch with him. Perhaps I have to pay some tax, he thought. But no; the EU officials wanted to tell him that under the Common Agricultural Policy he qualified for a payment just for growing -olives.

So notorious has the EU transfer payment system become that a common spam email says that the EU is trying to get in touch to pay you money.

Australia does not yet have a European-size of government. Julie Novak of the Institute of Public Affairs, using International Monetary Fund figures and some work by the Cato Institute in the US, has produced a comprehensive table comparing the size of government in various countries. Different people's lists and tables differ slightly, but the overall figure is roughly similar in most such efforts.

Measuring just government expenditure fairly narrowly -defined, the three tiers of Australian government together -account for about 37 per cent of gross domestic product. That is well below the European leader, France, at 57 per cent. But it is getting close to the 43 per cent of GDP that government accounts for in Ireland, and the 45 per cent in Britain and Germany.

Several factors have kept the size of our government smaller than European governments. Our aged pension is at a relatively low level. It and other social welfare benefits are more means tested than in Europe.

And under the Hawke-Keating-Howard reform era we undertook privatisations and market reforms that increased productivity. Most important, we have had an enormous minerals boom that increased the size of the economy.

But now the minerals boom is over, means testing has been weakened, many transfer payments and concessions, a la Europe, are going to affluent and politically powerful people, and there has been no significant economic reform for perhaps three political cycles.

As a result, our debt is growing rapidly and without major policy change in a relatively short time the size of our government will be an unsustainable European-style mess.

Because of the volatility of our terms of trade, and given that we don't belong to any club like the EU that would bail us out if we got into trouble, we are in some ways even more vulnerable than some of the Europeans.

The European social democratic model is in crisis, if not -utterly broken. It treats affluent people very well, not least because they access its bizarre and laby-rinthine transfer payments and tax concessions, and it provides a level of subsistence for those content to live forever on welfare.

But it has many profound, and perhaps ultimately unbearable, costs. It locks young people out of stable employment. It creates an unaffordable budget. European governments cannot keep the -financial promises they have made to their people. And it makes their economies uncompetitive, especially in comparison with Asian economies.

This is even more acute for Australia. We assume that Asian economic growth will be a never-ending bonanza for us. In some ways, it will. But we will also face intense competition from Asia, especially in services.

Already our universities, rendered less competitive by the high dollar, find they are not only competing for Asian students with European and North American universities, but with ever-better Asian universities.

Melbourne and Sydney universities needn't worry too much about Harvard or Oxford; they are in a different category. But the National University of Singapore, or the University of Hong Kong are now in the same category as the best Australian universities.

They work in English and are cheaper. We will not compete well in Asia, or be an attractive destination for Asian investment, if we are a high-cost, high-tax, high-regulation country along the European lines that we have been heading for during the past decade.

The forthcoming Abbott budget is an attempt to reject the European model and find something more sustainable.

One area where the government has been successful, so far, in avoiding the European road is in illegal immigration of low-skilled people claiming refugee status.

I found across Europe a near universal recognition among government officials that the refugee system, which had been set up to provide refuge from political persecution, was being gamed and had become instead a method of mass, illegal, low-skill immigration. But no European policymaker was confident they could do anything effective about it.

Australia, in contrast, has a superbly successful, huge, legal immigration program and, for the moment at least, has stopped the illegal arrival in boats, which at its peak was running at 50,000 people a year.

But the political culture is showing deeply disturbing signs of European dysfunction. Many Continental European nations run a proportional representation electoral system. This has contributed to the fracturing of the traditional voting patterns, first on the centre Left and now on the centre Right.

More competition among political parties may seem attractive, but it is a mortal enemy of coherent government.

It breaks the tradition of democracy in which a party seeking government tries to gain majority support.

To do this it must engage in internal policy debate and compromise and present a coherent, balanced policy. If the vote is deeply fractured, on the centre Left or the centre Right, the mainstream party no longer has an incentive to make these compromises internally. Instead it looks to its base and its institutional backers.

In Australia, the centre-Left vote has fractured disastrously with the Greens nearly competitive with Labor in the recent half Senate election in Western Australia. The Greens, not seeking government, are utterly irresponsible in policy terms.

Perhaps even more important, their rhetoric is extremist, absolutist and highly emotional. They don't paint their opponents as merely wrong but as wicked planet destroyers, racist persecutors of refugees, closet homophobes and sexists.

The proportional representation system in the Senate, the ability of the Senate to block legislation and the smaller electoral quotas as a result of the expansion of the size of the Senate encourage this fragmentation.

Now, partly due to the incompetence of the main centre-Right parties in Australia, we are seeing a similar process here on the Right. The core brand of centre-Right parties is competence, just as the core brand of centre-Left parties is compassion. Yet the bizarre immolations of Ted Baillieu in Victoria and Barry O'Farrell in NSW have done enormous damage to that core brand.

Similarly, in Clive Palmer we have a well-funded right-wing populist, like the Greens completely free of any constraints of responsibility in policy.

In many ways, Palmer is a result of the merger of the Liberal and Nationals parties in Queensland. There was always going to be a right-wing populist party in Queensland. The face of rural populism should be Barnaby Joyce, assertive but ultimately accommodated within a responsible Coalition. Instead the face of right-wing populism is Palmer.

His ability to spend whatever he likes on elections shows the foolishness of our electoral funding restrictions and offers an -incentive to future Clive Palmers. The Palmer United Party can spend any amount of Palmer's money it wants, but the NSW Liberals cannot receive donations from regular, law-abiding companies.

A much better, simpler, less statist regulatory approach would be one of freedom of donations but instant and continuous disclosure.

The profusion of European-style transfer payments, and the bribing of affluent sections of the electorate with government welfare and tax concessions, mean that every political party at every point has an incentive to say no to any change.

Has Australia passed the tipping point? Is the European political and budgetary syndrome now irretrievably implanted in our political culture?

Put it another way. It seemed that the dysfunction and policy chaos of the Rudd-Gillard years was mostly a consequence of internal Labor politics. But could it be that much deeper structural factors were at work? Were those years not an aberration but the new paradigm? The Abbott government's ability to sell its budget, which asks for a little sacrifice from all sectors of the community and makes an effort to repair the debt and deficit trajectory, will tell us much of the answer.