

# CEDA

ECONOMIC DEVELOPMENT

## **CEDA POLITICAL AND ECONOMIC OVERVIEW**

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## POLITICAL OVERVIEW

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### RETROSPECT 1991

It has been a year which began and ended with significant international events, the Gulf War and the visit by U.S. President George Bush, but there can be no doubt that domestic politics dominated Australia in 1991. Overwhelming all else was one of the most amazing political contests this country has witnessed, the battle for the Prime Ministership of the nation, from within the governing Labor Party. It was a battle which destabilised policy making in many arenas of government activity throughout the year and, in the environment of one of the worst recessions to be felt in Australia, created the perfect opportunity for a revitalised opposition to begin to capture the initiative on economic management issues and maintain a clear margin over the government in the polls.

Other major political events of 1991 included:

- \* A series of measures announced by the government aimed at addressing the deteriorating economic situation set in the midst of the parameters of a divisive debate over whether economic policy should remain basically unchanged and the market allowed to run its course, or whether selected interventionist measures should be enacted. The results – a March industry package, a May economic statement, the budget, a November employment statement, and much talking down of interest rates – seemed to please neither camp and were received as marginal and incremental in the manner in which they addressed the nation's short to medium term economic difficulties.
- \* The continuation of the Prime Minister's New Federalism programme which, despite the final Special Premiers' Conference which stalled on the question of tax sharing, produced an impressive list of micro-economic reforms, substantial co-operation between federal and state political leaders and officials, and the creation of new structures and new processes for dealing with intergovernmental relations. The initiatives also included the beginning of a longer term review of the constitutional system in the light of Australian and overseas experience.
- \* The launch in November of the opposition's "Fightback Package" which caught most political observers by surprise in that the much vaunted consumption tax was but one element of a series of more fundamental policy initiatives in economic and social areas. The debate continues about the accuracy of the package's contents, assumptions, and impacts, but there can be no doubt that it has shaken up political discussion and

produced much more distinctive and competing visions of Australia's economic future, between our major parties.

- \* Highly significant reforms to the rules governing political advertising driven mainly by the very expensive nature of television advertising and the resultant potential for corruption and dubious political practices. The controversial changes which substantially curb the amount of permitted paid political advertising have the potential to affect dramatically Australia's electoral behaviour.
- \* The centenary of Australia's oldest political party, the Australian Labor Party, and efforts to reform the structure and decision-making powers within the Party which would see some decline in the influence of trade unions. An unprecedented tied ballot for the presidency of the party, and some shifts towards privatisation of public enterprises.
- \* Unusual instability in Australia's major minority party, the Australian Democrats, and a prolonged and harmful campaign accompanying their change of parliamentary leadership.
- \* Pronounced turbulence in state politics with the rise of vocal and powerful independents, troublesome upper houses in many states where the government does not have the majority, an early unpredicted cliff-hanger election in New South Wales, constitutional crisis in Tasmania leading ultimately to a minority government and the calling of an election for February 1992, continued fallout from fiscal scandals in Western Australia and South Australia, and political behaviour in Queensland.
- \* Some setbacks to the growing influence of the trade union movement as the industrial commissions and tribunals across the nation begin to introduce elements of enterprise bargaining and contradict aspects of the Accord.
- \* Continued disenchantment with Australia's banking system resulting in the presentation of the report of a parliamentary committee's inquiry into the banking system prescribing generally closer supervision and a revised role for the Reserve Bank itself, the subject of much controversy during the year as a result of accusations regarding its independence.
- \* Significant changes to some of Australia's major government enterprises, especially the rather haphazard restructuring of the telecommunications industry to permit entry of a second major private company to compete with the merged Telecom and OTC, beginnings of the partial privatisation of the Commonwealth Bank, QANTAS, and Australian Airlines, and the difficult task of waterfront reform.
- \* A major debate over media ownership and media regulation, revolving mostly around the sale of Fairfax newspapers, and the scrutiny of the electronic media by the Australian Broadcasting Tribunal. Constantly

changing government policy pronouncements created a great deal of turmoil for the media industry which responded editorially in kind.

- \* The continuation of the environment as a major long-term political issue for Australia, as in other countries. The decisions on the Resource Assessment Commission's reports, the fate of the Resource Security legislation, the Fraser Island compensation package and, late in the year, the reports from the committee network on Ecologically Sustainable Development, have revealed the immense difficulty which this nation is experiencing in striking a balance between economic development and environmental protection, especially in a period of such economic downturn. All of the structures and processes employed at national and state levels have not been able to mask the truly political trade-offs which are involved and the volatility of the issue.
- \* A continued high profile for Australia in a myriad of foreign policy issues. The year saw Australia with a difficult range of matters handled forcefully and competently in the main, including involvement in the Gulf War, continued support for the UN and multilateralism, a settlement in Cambodia, containment of difficult relations with Malaysia and South Africa, swift reaction to atrocities in East Timor, keeping closely abreast of developments in the fragmentation of the Soviet Union, and required realignments and recognition of new states, pressure for reforms in GATT, culminating in strong support for the closing phases of the Uruguay Round and an assertive stance towards both the EEC and the USA over their trade protection policies with their harmful fallout on Australian primary production.

## THE LEADERSHIP ISSUE

On Thursday, December 19th, Bob Hawke, Australia's second longest serving Prime Minister and longest Labor incumbent, was voted out of office by his own caucus on a vote of 56 to 51. The incident was unprecedented in Australian history for a number of reasons. Never before had a Labor Prime Minister been removed by his own party whilst in government; the leadership tussle which had gone on for most of 1991 followed revelations of an unprecedented written agreement between the Prime Minister and his Treasurer signed by two witnesses that there would be a change of leadership mid-term despite assurances to the electorate at the 1990 election that the Prime Minister would serve a full term; the Secretary of the Department of Prime Minister and Cabinet, Mike Codd, in line with the new procedures of five-year review for public service positions, offered his resignation but, at the same time, created a precedent which may be seen as taking Australia even further towards Washminster style politics in Australia, especially in terms of the politics/administration interface and perhaps in terms of presidential style government.

By any yardstick Bob Hawke's contribution has been remarkable. In leading his Party to four successive election victories he changed the face of Australia's national politics by establishing Labor as a credible long-term alternative government. (Before him Labor had never been in office at the national level for longer than two terms leading, to a perception that conservatives were the natural government and Labor solely short-term reformists.) He presided over a pronounced rightward shift in his Party's policies to the centre, endeavouring to adapt Labor's origins, principles and concerns to modern day economic and social conditions, and the reality of market forces, thereby cutting much of the middle ground away from the coalition parties. In the process he transformed voting allegiances, especially the women's vote, the youth vote, and that of middle income professionals. Bob Hawke's leadership style was his most enduring characteristic. Words like "accord", "summit", "reconciliation", "tripartite", "consensus" were firm components of his vocabulary stemming probably from a combination of his Congregational upbringing, his humanitarianism, and strong grounding in trade unionism and its world of conciliation and dispute resolution. Coming after the period of the divisive government of Malcolm Fraser, Hawke was seen as a man for the times. He was never happier than when he was chairing a meeting of disparate interests, endeavouring to chart a course towards what would be a mutually agreed and settled outcome. No other political leader in Australia has ever had such close connections with both trade unions and company executives – in this respect it will be a long while before Australia sees the likes of him again. If this produced criticisms that his style of government was corporatism and a sell-out of Labor's traditional socialist ideology and support base, it was countered by his oft-repeated dogmatic assertion that his Party could only achieve gains for its supporters whilst in office, and this obviously caused personal agony on several occasions in his time at the helm.

Even to those unfamiliar with Labor Party politics Bob Hawke performed an amazing eight-year juggling feat in keeping four factional groups with very different agendas in check and harnessed together to produce agreed policies. Of course the Prime Minister did not always get his own way. His period in office saw a significant reduction in industrial turbulence and Australia lost its former international reputation as a strike-prone country. Captains of industry may well have suspected that, under the Hawke government's accords they were paying more or receiving less than they might have done under a free labour market, but it was a price they were prepared to pay for the stability and certainty which accompanied this central plank which the Prime Minister could deliver effectively given his background.

He was a Prime Minister with an understanding of the economy and its machinations, a Rhodes Scholar, a passionate man, and a dignified ambassador for his country abroad. There were issues in which he dabbled, and showed promise of producing permanent and lasting reforms like aboriginal reconciliation, the environment, child poverty, the clever country, and even federal/state relations. Only history will be able to judge whether these attempts weakened because he could not take his Party with him far enough, or became distracted, or had simply delved into intractable Australian problems, but he certainly put these items on the Australian political agenda.

Why then the challenge to his leadership? The ambition of a contender – Bob Hawke would understand that. The sheer toll of modern day politics – eight years and four elections is a gruelling effort in anyone's language; even American presidents serve only two terms. An effective opposition – the graphs tell part of the story with Hawke trailing Hewson at the beginning of 1991 as preferred Prime Minister, then gaining the ascendancy until early August, recovering the lead again until mid-November and winding up 15% behind just before his downfall. A loss of approval from the electorate – his approval rating in the polls was never higher than 50% all year and hovered mostly around the low 40s, reaching only 26% at the end while Hewson's approval rating was consistently higher all year by a fair margin, though not an insuperable one. The declining support for the Party itself – Labor polled around 37% for most of the year, the highest result being 38.5% and the lowest 32% compared with the result of close to 40% at the 1990 election and compared with figures for the coalition of between 44% and 51% during the year. The sheer economic times – very few governments can survive periods of high unemployment and 11% is extremely high, not to mention over 30% youth unemployment, the leader bears the brunt of the dissatisfaction.

It is easy to see why Labor parliamentarians were frightened of their prospects of government at the next election but not as easy to explain why they would turn to a candidate who was clearly less popular with the electorate. Part of the answer may lie in a parliament "hot house" theory. Keating, an acknowledged stirring parliamentary debater, may well have swayed the opinions of those who might inhabit the house on the hill – politicians and the media. An extension of the theory is that press gallery journalists are no longer political analysts but theatre critics, especially since the advent of televising parliaments. Whatever the plausibility of this speculation there were many journalists prepared to admit after the first Keating challenge, which he lost 66 to 44, that they had misjudged the reaction of the electorate to Paul Keating. It was one of the rare moments in Australian political life when media editorial opinion was so contrary to public opinion and it warrants further analysis. There has been some talk that the editorials following the first challenge were written by press gallery representatives rather than by capital city home-based leader writers, and this would be a partial explanation. A few journalists, though very few, were prepared to admit a role for the media in bringing on the second challenge. By constant speculation about another challenge an impossible position is created for a leader and often a challenger, especially as the resultant image of a destabilised party creates the constant imperative for leadership showdowns. It is a familiar scenario nowadays with an Australian media so obsessed by personalities compared with the more issues orientation of their overseas counterparts.

At the end of the day, politics being what it is, caucus members choose a leader who they think has the best prospects of getting them re-elected and that judgment will take at least 15 months to be tested, for Prime Minister Keating will surely delay going to the polls for as long as possible. Caucus members obviously saw this lead time as being essential for the new leader to build a rapport with the electorate.

## PARTY DIFFERENCES

Following the government's economic policy decisions throughout 1991 and the release of the coalition's "Fightback" package it is now possible to discuss in broad outline the major differences in policies. Of course these may change during 1992, particularly if the Keating government, and especially new Treasurer John Dawkins, follows its promise of more, albeit selected, interventionist measures. However, at the end of 1991 the divergences would appear to include the following:

- \* **Industrial Relations:** While Labor has accepted moves towards enterprise bargaining, it is clear that they would retain a fundamentally centralised wage-fixing system and some kind of ongoing Accord process, contrasted with the coalition's policy of a decentralised and deregulated system of enterprise bargaining, albeit with some form of legal minimum wage.
- \* **Taxation:** The coalition offers a Goods and Services Tax of 15% accompanied by the abolition of other indirect taxes and the lowering of income tax. Labor seems prepared to offer some rationalisation of selected indirect taxes and may offer income tax cuts probably on the basis of a wage rise/productivity trade-off, but politically is unable even to mention a consumption tax. It should be realised that the manifest tightening of income tax loopholes by the Taxation Commissioner and the generally increased efficiency of the Tax Office have contributed significantly to the boost to revenue and possibility of balanced or surplus budgets in most of the Hawke years.
- \* **Macro-economic Policy:** The coalition would seem destined to place less reliance on monetary policy than Labor although the likely mix is not clear. The flexibility comes mainly through a lesser role for wages policy in the coalition scenario and a broadening of the tax base between direct and indirect taxes.
- \* **Privatisation:** As with the 1990 election manifesto the coalition will offer a comprehensive programme to sell off the remaining major government enterprises. Indeed their ability to fund income tax cuts depends heavily on this factor. Labor would seem to have gone as far as it can politically on the path to privatisation unless Prime Minister Keating has another rabbit in his hat such as he produced to convince his party that the Commonwealth Bank should be privatised to enable it to take over the ailing Victorian counterpart.
- \* **Health:** Labor will retain Medicare apparently without the \$2.50 accompanying surcharge, whereas the coalition would shift to a hybrid health insurance system with opting out and cut-off levels to encourage private health insurance for middle and upper income earners.
- \* **Education:** The coalition parties have foreshadowed some shifts to increase funding to private primary and secondary schools and a



considerable deregulation of tertiary education including a form of vouchers. It is doubtful whether Labor would change its current policies although increasing emphasis on TAFE seems likely.

- \* **Social Policy:** The coalition has foreshadowed some significant changes to shift unemployment recipients and single parents off government payments and into the workplace.
- \* **Federal/State Relations:** The coalition parties maintain their traditional commitment to devolution of powers but the details are not clear. A meeting of Liberal leaders in 1990 agreed that federalism was a means to an end and not an end in itself, a stance heavily influenced by New South Wales Premier Greiner, but the details across portfolio areas have not been spelt out. It seems likely that the coalition would maintain the reforms achieved by the New Federalism initiatives, especially the micro-economic reforms, and would be more likely to implement tax sharing with the states than would Labor under Keating. The 1991 Cities programme would not survive for long under a coalition government; it would be like 1976 revisited.
- \* **Imposts upon Industry:** It seems clear that the coalition would remove some of the national government measures which industry considers to be imposts including the 1991 superannuation levy, equal opportunity monitoring and reporting requirements, and the training levy.
- \* **The Public Sector:** The coalition certainly seems to have it in for the Commonwealth Public Service and the central agencies in particular, including Treasury, for what is seen to be its poor record on economic forecasting. The "Fightback" package proposes draconian cutbacks to the size of the public sector and its decentralisation from Canberra. Independent analysis from various quarters tends to indicate that there may be more fat in the state government sector which will be revealed by their corporatisation programmes and continued Industry Commission analyses, micro-economic reforms stemming from the new federalism including reform of government business enterprises, not to mention the trend to "government by Moodys" as state governments reform their public sectors to maintain high borrowing credit ratings.

## ELECTIONS AND POLITICAL PERFORMANCE

### *Commonwealth*

As mentioned earlier, the coalition parties maintained a clear lead over Labor during 1991 at the national level. Discounting the end of year blip caused by the leadership issue, the coalition parties were polling a primary vote of over 50%



compared with their 1990 election performance of 43.2%. It was a steady level of support throughout the year, the National Party component being particularly stable at 5%–6%. By contrast, Labor support fluctuated a little more widely but only rarely came close to the 1990 election result of 39.4% and never equalled it. If those figures translated into voting intentions, the coalition parties would have won an election had it been called. However, there was still a significant proportion of the electorate prepared to vote for the Democrats (although their support has clearly slipped), other parties, or are simply undecided. In truth some 20%, one-fifth, of the electorate may well have shunned the major parties.

The figures relating to Senate voting intentions are particularly interesting. Throughout 1991 the national Senate support favoured the coalition, moving between 43% and 47% compared with the 1990 election result of 42% whereas for Labor it was only 30% to 36% compared with 38.2% at the election. The Democrats' Senate polling fell progressively throughout the year to 8%, well below their election performance of 12.6% and if these figures were translated into actual voting behaviour they would be struggling at any half-Senate election. Nonetheless clearly neither Labor nor coalition parties could be hopeful of obtaining a Senate majority on these performances. Only in New South Wales and to a lesser extent in Tasmania does Labor almost match the coalition Senate polling figures; in every other state the coalition parties are ahead of Labor by a significant margin. The Democrat Senate polling is noticeably stronger in South Australia than anywhere else with Western Australia and to a lesser extent New South Wales and Tasmania the main regions of falling support.

### *New South Wales*

Premier Nick Greiner called an early election on May 25th, 1991 on the basis that his legislation on industrial relations had been blocked in the upper house. In fact, the government had been having significant difficulties with the upper house and the independents who held the balance of power. Independents had dogged the major parties at the 1988 election in the lower house as well and just before the 1991 election the Democrats and independents achieved as much as 18% of the opinion poll support. The Premier cut back the number of lower house seats from 109 to 99 and also put a referendum to cut three seats from the upper house, both measures harming the chances of independent candidates.

At the election the vote was:

Liberal/National	44.7%
ALP	39.1%
Democrat	5.3%
Others	10.9%

The result was a severe jolt to the Liberals with their vote down more than 5% from the 50% they had been polling at the beginning of the year. In the event the result was Liberals 32, Nationals 17, ALP 46, and Independents 4, giving Greiner only a minority government dependent on the support of independents who

subsequently actually signed an agreement with the Premier on a range of agreed matters for the life of the parliament, after concessions were obtained from both sides, but mainly from the government. In the Legislative Council the result was Liberals 13, Nationals 7, ALP 18, Democrats 2, Call to Australia 2, again denying the government a majority. It was a headache of major proportions for Greiner made into a splitting headache at the end of the year when an ALP challenge to the close result in The Entrance saw the decision to quash the result, thereby requiring a by-election which has been set for January 18th, 1992. Should Labor win that by-election they may well be able to form a government. Whatever the outcome it looks like political instability in New South Wales for some time.

The general consensus is that the Liberals attempted to run a presidential style campaign on a steady as she goes, economic management image whereas Labor ran an energetic grass-roots old fashioned campaign which picked up the fact that people were hurting and blaming the government. Whatever else, Labor leader Bob Carr's claim was true that he had regained traditional ALP heartland areas which Greiner and Independents had taken away in the 1988 poll. Carr has led Greiner in approval rating in the opinion polls since the election and overtook him as preferred Premier in September 1991. The New South Wales experience has sent some shock waves through all political parties in Australia about relying too heavily on polls, becoming too arrogant or distant from real issues, misunderstanding disenchantment with politics in general, and maintaining highly efficient election party machinery.

The New South Wales election produced further evidence for better education and information for voters. The referendum was to be answered with a tick but the ballot required numbers in the square. The result? Ticks instead of numbers and an informal vote which grew to 20% in some seats.

### *Victoria*

Labor constantly polled well below the coalition parties throughout 1991 in Victoria with a fairly disastrous support level of below 30% for most of the year. However, support for the coalition parties steadily declined from an opening 57% down to 50% by December caused largely no doubt by constant monkeying around with the question of whether to block supply in the upper house accompanied by the recycling of the Liberal leadership back to Jeff Kennett.

Premier Joan Kirner's popularity has steadily and markedly increased throughout 1991 despite the woes of her government with the Tricontinental Inquiry, Cabinet reshuffles, the resurgence of the left, and perceived mishandling of some local matters affecting her ministers. She finished the year with a creditable 50% approval rating compared with only 28% by Kennett and outpolls him as preferred Premier now by 52% to 36% whereas she had badly trailed Brown while he was opposition leader.

Victoria's economic difficulties are the key handicap for the Labor government and will also be crucial for the national election so it may be that Paul Keating will be tempted to target Victoria in any of his new economic stimulus measures. A state election is due in Victoria by October this year.

### *Queensland*

Labor Premier Wayne Goss continues to be the most popular Australian Premier with an approval rating of over 70% for the whole of 1991, and preferred Premier by nearly three-quarters of the Queensland electorate. It has not all been plain sailing with some serious blows to his government arising late in the year from the findings of the Criminal Justice Commission on alleged rorts, which saw the Premier having to call for the resignations of two cabinet ministers and the Deputy Speaker. There has also been some continuing friction as the complex machinery of government established post the Fitzgerald Inquiry sees various players in tiffs with each other from time to time. Goss is clearly aided by the State's relatively sound fiscal position and the continued lacklustre performance of the opposition. Both opposition parties changed leaders in late 1991, the Nationals as a result of the CJC investigation and the Liberals as a result of infighting. The widely publicised non-outcome of the Bjelke-Petersen trial and other resurfacing images of the past have also dogged the opposition.

Labor has constantly outpolled the opposition parties with between 44% and 47% at the opinion polls but this is down on the 50.3% primary vote at the December 1989 election. A substantial redistribution of electorates has resulted in neutral gains between the parties and at the election due by the end of this year Labor needs to encounter a swing of only a little more than 4% to lose. With the new opposition leaders having literally kissed and made up, signed a pact, and headed for coalition, Goss is constantly warning against complacency. A referendum to extend the parliamentary term to four years was lost but another referendum promised for 1992 on daylight saving seems likely to see Queensland end that experiment, putting the sunshine state out of step with the rest of Australia on both sunshine and electoral reform.

### **South Australia**

The year was not kind to John Bannon and his Labor government with the establishment of the Royal Commission into the State Bank's admission of \$1 billion losses, extremely high levels of non-performing loans and management practices. The government bailed it out. The State Government Insurance Corporation and the Workers' Compensation Scheme have also come under fire for their investment policies. This is in a state which has been acknowledged to be conservatively fiscally managed and which has ridden out the economic trends which have seen some of its basic industries taken over by interstate companies.

Through it all the Labor government has maintained its support at around 37% in the polls for most of the year, still behind the coalition which has peaked at 49%

and troughed at 43%, but close enough to be in with a fighting chance at an election on the new boundaries which, after a curious redistribution, seem to be still gerrymandered in a way that slightly favours the ALP. A great deal will, of course, hinge on Premier Bannon himself and the outcome of the Royal Commission due in the first half of 1992. His approval rating fell sharply in the first half of 1991 but flattened out at 45% in the second half, well ahead of opposition leader Baker. Australia's longest serving Premier and former ALP party president, he is also still the preferred Premier by a margin of 57% to 25% over his Liberal rival. The government does not have to call an election until November 1993.

### *Western Australia*

Carmen Lawrence, Labor Premier of Western Australia, has hardly had a quiet moment since assuming office in 1990. She inherited the various components of the W.A. Inc. scandals which continue to overshadow all else in the west, especially once the Premier agreed to establish the Royal Commission that her predecessors shunned. Public sector fiscal management has not been an issue with the state budget reasonably well received, but ministerial sackings that seem to have gone wrong resulted in three ministers having to be voted out by caucus and two subsequently resigned from the party and one from the parliament, forcing a by-election in Geraldton at which the ALP suffered a 30.8% swing.

A general election is not due until February 1993 and again findings of a Royal Commission will be crucial. Lawrence enjoys high approval ratings in Western Australia, falling into a trough of 47% in March but climbing to a respectable 62% by year's end, nearly double that of the Liberal leader McKinnon. The opposition in Western Australia, like that in Victoria, has also suffered losses of support as a result of threats to block supply which did not eventuate. Lawrence finished 1991 as preferred Premier by 55% to 29% but her party has badly trailed the conservative parties all year, hovering around just 30% in the polls to the opposition's steady 52%. It is a big gap to close.

### *Tasmania*

After continuous difficulties in trying to make a minority government work in an alliance of sorts with the Green Independents, Labor Premier Field has succeeded in having the Governor dissolve the House and call an election for February 1st this year. Labor currently holds 13 seats and the Green Independents 5, with the Liberals holding 17. It will be an extremely interesting poll with a new Liberal leader Ray Groom having deposed Robin Gray on December 17th at a second attempt, and Labor and Liberal equal at 41% support in the latest opinion polls, with the Greens on 13%. Both the major parties are categorically refusing to promise a deal with the Greens after the election. The Greens say they will support whichever party wins the largest number of seats, seen as a blow to the Labor Party and a boost to the Liberals in the early phases of the campaign.

Tasmania's voting system makes predictions always difficult and with a change of Liberal leadership past popularity polls are of little use as a guide. It is inevitable that environmental issues will again dominate the election, the question of resource security legislation having been the main issue which brought the Labor Party and the Greens unstuck. If as a result of this both ALP and Liberals are seen as being pro-development it will certainly polarise the hard core environmental vote to shift to the Greens. If their vote holds firm or slightly increases, the election will be mainly a test of whether the Liberal Party has maintained its support through the aftermath of the Rouse Royal Commission, as well as a test of voter opinion on the management of the Field government. At this stage it seems unlikely that either major party will win an absolute majority so the lessons of Tasmanian government of the past two years will need to be restudied carefully as there have been some dubious constitutional processes which have occurred. Also world-wide experience reveals that alliances between parties without actually forming coalitions or allowing for minority representation in cabinet rarely hold for long periods and are a recipe for unstable government.

## NEW FEDERALISM

In the midst of the cynical turmoil that surrounded politics in Australia in 1991 one very positive development stands out – the new federalism process. The series of Special Premiers' Conferences continued with the second one consolidating the gains made at the first and, although the third conference collapsed over the Commonwealth government's intransigence on tax-sharing, the issue is still on hold rather than cancelled. The Premiers are also clearly resolved to continue interstate co-operation and there is much that can be gained from this. When politicians behave like statesmen they should be congratulated and supported, and it is to be hoped that the Keating government will continue the spirit of the reform momentum even if some of the details are changed.

The process has delivered a national rail freight authority, an electricity grid, a new regulatory regime for non-bank financial institutions, enormous potential for mutual recognition in the area of goods and services and professions to create a common market, new options for monitoring comparative performance of government business enterprises, and a fundamental reappraisal of the role of each level of government in the policy-making and delivery of an extremely wide range of government functions; nearly 40 individual public sector areas of substance have been reviewed and a lessening of overlap and duplication is promised. All of this has been achieved in only 18 months and in a co-operative rather than coercive manner. It is a testimony to the capacity of the Prime Minister and all the Premiers, chief ministers and local government bodies and especially the bureaucrats, who have produced the outcome desired by the political leaders through an incredible amount of effort and consistency of applying the rationale which the reforms seek to address. It certainly destroys the myth that public servants cannot be responsive, efficient and effective in carrying out government programmes.

The New Federalism process has worked for a number of reasons. The Prime Minister and Premiers in particular were prepared to forget rigid adherence to centralism or states' rights ideologies in order to make the federal system work. The example of Europe in particular has encouraged the political leaders to produce a more efficient federal economic union. The business community has reinforced the need for reform to improve Australia's international competitiveness so that federalism is no longer just an academic or legal/constitutional debating spree but a vital part of the nation's future standard of living. The Liberal Party and especially the New South Wales Liberal Premier, very much alone in a sea of Labor governments, have been prepared to adjust old conservative stances on federal/state relations and make federalism a means to an end rather than an end in itself as it used to be. (Indeed New South Wales, interestingly often in collaboration with Queensland, has produced much of the energy and lateral thinking evident in the process.) A new breed of guru has also appeared on the scene in this process epitomised by the former head of the Department of Prime Minister and Cabinet, but with counterparts in most states, capable of straddling the political and management agendas, coordinating the machinery of government effectively from a central position so that intergovernmental cooperation can be based on intragovernmental coordination, and generally overseeing a complex kaleidoscope of issues across a multitude of portfolios and ministerial councils but nonetheless keeping the momentum of the process going with the end product – a more rational allocation of functions through the federal system firmly in sight. Local government has played a positive and helpful role and contributed a number of ideas to the melting pot and demonstrated its bona fides in the federal system which so often overlooks its role.

There have been tensions: between central agencies and line ministers and agencies; with various lobby groups, especially in welfare and the environment with concerns over potential watering down of standards accessibility or equity in government policies should they be devolved; with academics and journalists over the essentially secretive nature of the process behind closed doors and without major public debate. Each of these is an important qualifier and does often represent legitimate concerns but at the end of the day there is no reason the final design cannot be the subject for debate, and have ongoing accountability mechanisms and checks built in as well as ongoing input mechanisms. A Senate Standing Committee on Intergovernmental Relations would be a good start for surely there is a place for the intended "states house" in the oversight of the evolution of Australian federalism.

Much of the reform initiative will, of course, be lost if the vertical fiscal imbalance is not rectified. It is already the worst in the world compared with other federal democratic systems. Essentially the states and local governments want a reduction in the proportion of conditional funding and a guaranteed share of growth taxes, preferably income taxes. These are reasonable and essential requirements to achieve efficiency and accountability of taxing and spending at all levels in Australia. The Commonwealth government does not need all of the taxing power it has to run the economy, and, if deregulation makes other parts of the economy efficient, why not deregulate the states and allow the market to put its pressures on them while maintaining sufficient Commonwealth government powers and revenue

raising to ensure universality, portability, accessibility, equity, and uniformity where desired? Other federations have no difficulty in this respect and they are far more fiscally decentralised. There is a range of options whereby these aspects can be achieved, including separate taxing regimes as in the USA, piggy backing taxes as used in Canada, or tax sharing as in Germany. The business community is strongly against setting up dual collection mechanisms so that will be a key factor to keep in mind.

At the end of the day, without reform of the federal financial arrangements, the momentum for the other parts of the reform will wane, and Australia will drift back into overlapping and duplication, fragmentation of economic union, role confusion in the delivery of services, and a lack of accountability to electors. To round it all off, the longer term requires continued assessment of the constitutional system to adjust the framework as well, where this is found to be necessary. Will the Keating government maintain the positive and overdue political momentum, even if it disagrees with some of the details? It is to be hoped so.

## **POLITICAL ADVERTISING**

This issue warrants separate comment because one of the fundamental rules of politics in Australia has been changed. In essence, paid political advertising on radio and television is banned for federal, state and local elections, some free time for political launches will be given, full disclosure of all forms of income and expenditure of registered political parties will be required except for individual donations of up to \$1,500 to parties or \$300 to individuals, government advertising will be prohibited, and the public funding entitlements for federal campaigns will be continued with the entitlement for the Senate campaigns brought up to that for the House of Representatives. So-called "third parties" will also be subject to the reforms.

Senator Bolkus, the Minister for Administrative Services, justified the changes largely on the grounds of reducing corruption caused by the high cost of electronic media advertising, and creating a level playing field for all parties, many of whom could not afford the \$10 million it costs major parties at each federal election.

Shadow Minister Warwick Parer and the electronic media itself have attacked the changes as an assault on free speech and far too draconian for the small amount of corruption evident (in federal elections at least). The opposition parties have also promised to end public funding claiming that political parties taking funding from the public purse is corrupt. A poll on the issue showed 49% opposed to the ban on political advertising with 43% approving and 8% undecided. Basic rights and freedom of speech were the main concerns of those opposed but those in favour cited too much advertising and a waste of money, rather than any concern about corruption.

Clearly it is a trade-off decision. It seems to be a very heavy-handed measure in relation to the mischief it is meant to address. It is true that modern democracies



see a triumvirate relationship between public funding, political advertising, and donations and try to legislate in a systemic way for all three components, but never as harshly as has Australia in the area of paid political electronic media advertising.

The New South Wales Attorney-General has announced a constitutional challenge to the measures which may produce some helpful legal opinion but it seems as if the rudiments will stay as long as Labor governs nationally and the Democrats, who supported the measures, hold the balance of power in the Senate. It seems fairly natural to conclude that electorally the changes will favour the Labor and minority parties and disfavour the Liberal and National Parties who expect to be well cashed up. It will certainly favour the print media.

## PROSPECTS FOR 1992

No government in Australia is safe. The year 1992 will be one of intense competition between political parties at the national, state, territory and local level. The early part of 1991 was characterised by an image of personally popular prime ministers and premiers leading governments with much lower ratings, mostly at dire risk of losing office were it not for incompetent oppositions led by lacklustre leaders unable to put the knife in, let alone twist it. 1992 will be somewhat different.

There is enough evidence to confirm the trend spoken of in Dean Jaensch's review for 1990. The Australian electorate has become extremely cynical about politics and politicians, particularly suspicious of the major parties, and seeking fresh approaches. That mythical figure, the average voter, looks into the sea of politics and business and is confronted by waves of royal commissions, inquiries, revelations of rorts, perks, deals, briberies, bail-outs, bankruptcies, crises, factional manoeuvrings, back-stabbing, self-interest and aggrandisement, minority governments doing short-term deals for survival, and inability of the nation's accountability and enforcement mechanisms to stem the effects let alone address the causes of the rot. Politics has certainly kept sport off the front pages but at a terrible price, especially the negative political socialisation of our youth and their initiation into citizenship. The political high ground in 1992 will be most easily captured by politicians who appear statesmanlike, are prepared to present radical though responsible proposals, are united as a team, show some compassion for the concerns of voters, and are above reproach in their own personal behaviour.

The decade of the 1980s has witnessed an unprecedented phenomenon in Australia of Labor in government nationally and in five of the six states. That era is surely coming to a close and the conventional wisdom amongst most political analysts has been that the 1990s would be the decade of the Liberals. Even Labor's most famous elder statesman, Gough Whitlam, has speculated that Queensland may be the only Labor government remaining at the end of the decade. If government were solely determined by opinion polls these sentiments would definitely be

translated into reality. Also, if the conventional wisdom were accepted that extremely harsh economic times can see turnovers in government throughout a nation, the scenario of a blue/green decade would also hold firm.

At the beginning of 1992 several factors offer some challenge to this conventional wisdom. The Labor leaders are young, vigorous, have discarded the rigid adherence to past ideology and shibboleths, and are more pragmatic. The Labor Party's electoral machinery has been infinitely superior to that of the conservative parties, especially in regard to all the trappings of electioneering including polling, targeting, mailing, advertising, etc. The new laws for election media advertising which will affect both national and state elections will make it significantly more difficult for the conservative parties to make inroads even where governments have been demonstrably incompetent. There is a clear power vacuum in Australian politics in relation to the weak voice and influence of the business community which simply has not been able to match the research, policy formation, and articulation of the trade union movement which will surely throw everything it has into the campaign to keep the Keating and state Labor governments in power or face John Howard's legislative full frontal attack; the Liberals desperately need a revitalised unified forceful business sector behind them. To the extent that media ownership is an influence on elections, and there is little continuous definitive evidence to rely on, the situation is totally unpredictable given the changes in ownership of electronic and print media since the last election, the possible complications of the departure of Bob Hawke, the seeming lack of sympathy for, and desire to squeeze the resources of the ABC, on the part of both Labor and conservative parties, and of course the fact that there will be severe limitations on electronic advertising anyway.

To a large extent, all governments have been hoist on their own petard in recent times as they have sought fiscal freedom especially in the vital matter of capital raising and general recurrent revenue raising. As the grip of the Loan Council has been loosened, governments have become more exposed to the market and have felt the chill winds of market appraisal. 1992 will be an even stronger continuation of "government by Moodys" in Australia with a Triple A rating as important a political indicator as charisma, especially as public finance standards have now made economic performances of governments comparable, and some of our better journalists are putting these new comparative data to good use in reporting political performance. This means that in 1992 governments' public finance practices will be under the microscope, especially borrowing policies, cost recovery, proportion of budget devoted to economic activity, method of funding welfare and social expenditure, micro-economic reform, efficiency of government business enterprises and their imposts upon industry, etc. These external forces will become as powerful as internal lobby groups arguing for public expenditure since each government knows it will be judged in 1992 or 1993 largely on its fiscal performance given the times in which we live and the events of the late 1980s.

For the Keating government the challenge is about as explicit as it could be. In 15 months the Labor government has to convince the electorate that it is united, that its policies will address the nation's economic ills, that it can match the energy and innovation that come from the opposition parties without at the same time

deserting its traditional support base. Any continued assault by the government on the opposition's economic package will have to address the package as a whole and not merely the costing of its component parts, for the Australian electorate, perhaps in desperation, appears interested in radical concepts especially where they relate to measures to provide incentive and motivation. It would take a loss of only five seats to unseat the Keating government and Labor has three more senators due to face the 1993 poll than does the coalition. It is not possible to calculate swings required because the impact of federal redistributions cannot be yet measured. Preferences of minority candidates were crucial in 1990. Litmus tests will be provided for the Prime Minister during 1992 in state elections in Tasmania, Victoria and Queensland, remembering that whereas there has always been some spillover of national issues into state campaigns, we have a new electoral situation in this country where state government performance now also spills over as an issue in national elections. The Prime Minister's own personal popularity with the electorate will be a crucial factor for Labor and given the inevitability of media portrayals of politics we are clearly in for a Keating/Hewson popularity contest as much as any sober comparison of policies.

It is to be hoped that Mr Keating will maintain many of the Hawke initiatives just as he has maintained the bulk of the portfolio allocations. Although we have a truism in Australia that the long run has no votes, it is highly desirable that Prime Minister Keating press on with Bob Hawke's plans for a referendum for four-year terms of parliament at the next 1993 national election. Three years is simply not enough lead time for courageous, unpopular decisions and essential restructuring - we stand out as an international oddity in this respect.

The coalition parties begin 1992 from an obviously stronger position in the polls and the initial favourable reaction to their economic package. They appear united. At the last national election it was the National Party vote which slumped dramatically and it remains to be seen whether Tim Fischer's announced policy of going back to the bush will pay off at the 1993 election; the behaviour of some of their state parliamentary counterparts is still something of a wild card. The economic situation should favour the conservative parties as it is doubtful whether unemployment will fall much below 10% by the time of the next election, even if the economy begins to turn around during 1992. It will largely be a simple question of the credibility of their proposals and their perceived potential for economic management.

The choices will be sharper than they have been in the recent past. The Hawke government, in its 1991 budget, shifted back slightly to the left in a number of ways after the long period of moving to the centre. Keating will also have to placate the left and the trade union movement, given the circumstances that have surrounded the leadership challenge, and the abolition of the Medicare co-payment was a start. The conservative parties by contrast have in 1991 moved somewhat to the right. Australian politics, after eight years of convergence of the main political forces towards the centre, is about to become more polarised again. The differences will become more visible and that puts a greater onus on the leaders to justify and explain these differences. The performance gap, unlike the policy gap, is narrower, and it is not beyond contention that Labor could win in 1993; it is

definitely a more difficult task than in the past but nonetheless a similar and familiar situation for their experienced machine. All of this means that 1992 will be a year of intense politics so it is no wonder that Australia this year will be one of the very few countries in the world where it will be possible to spend the whole of every week night from 4.00 p.m. to late, watching or listening to current affairs on radio and television.

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