

Black spots on Libs' blueprint

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By Judith Sloan

Tony Abbott's poor grasp of the real principles of economic reform is worrying

Do right-of-centre political parties make better economic managers than their more left-leaning counterparts? Are right-of-centre parties more or less likely to introduce significant economic reforms that lift productivity and living standards?

Viewed over the past several decades and considering these questions in the context of a number of countries, the answers are not at all clear-cut. There have been very effective economic managers on both sides of politics and important economic reforms have been introduced by both sides. At the same time, disastrous economic managers have come from both the Left and the Right.

So what is Tony Abbott's position on economic reform? And how would the Coalition approach the task of managing the economy and implementing policies that raise per capita incomes? In these matters, the framework brought to bear is all-important. On the basis that competition and choice are the hallmarks of good policy, decision-making should be informed by these principles:

- Markets, with few exceptions, produce the best outcomes;
- The role of governments should be well-defined and limited, involving low taxation and spending;
- Businesses should be allowed to get on with the task of competing with each other and serving customers.

So what are the early indications that Abbott embraces such a framework? The short answer is: it's not promising. In particular, there is confusion between policies that are pro-business -- well, pro-small business -- and those that promote competition and increase overall living standards.

Take Abbott's suggestion that the recent introduction of unfair contract provisions in the Trade Practices Act should be extended to cover business-to-business transactions. At the moment, the new provisions apply only to business-to-consumer contracts.

Abbott makes the feeble point that small businesses are really the same as consumers when it comes to being bullied by big business. What he doesn't seem to understand is that the very act of meddling in the contractual arrangements between consenting parties can only work to the detriment of small business.

Not only will various costs be indirectly added to all contracts, but big business will simply refuse to deal with certain types of small business, lest they get caught in a web of regulatory intrusion and penalty.

Another worrying illustration of Abbott's lack of grasp of the real principles of economic reform is his proposed paid parental leave scheme. What was he thinking?

The case for any form of mandated paid parental leave scheme is actually quite weak. The prime rationale relates to the interests of the child and the evidence that babies do best with the undivided attention of a parent (almost always the mother) for the first few months of life.

While most new mothers do arrange their lives to achieve this outcome, a small proportion do not, or cannot, and return to work. It has been estimated that between 11 per cent and 17 per cent of mothers in Australia return to work in the first three months of their baby's life.

In reality, the combination of the baby bonus and family tax benefits has acted as a de facto paid parental leave scheme, although no distinction is made between working and non-working mothers.

The government's new paid parental leave scheme, to come into force from next year, is at least relatively modest in its features and cost.

By contrast, the Abbott scheme, to be funded by a levy on big businesses, which in itself calls into question any commitment to lower taxation, is ridiculously generous. And it will completely crowd out the private provision of paid parental leave, which now covers nearly 50 per cent of women workers. The proposition that the Abbott scheme would boost participation and productivity, certainly relative to the government's scheme, is not based on any evidence.

Another black spot on the Abbott blueprint for economic management and reform is his view of the role of state governments, particularly in relation to the provision of public services. At heart, Abbott is a centralist who probably believes that Australia would be best served if the states did not exist.

His experience as health minister evidently led him to distrust the state health bureaucracies in terms of delivering on promises made to the federal government.

But surely the experience of the past year or so tells us the federal government is a disaster when it comes to implementing programs and delivering services -- think pink batts, school halls, green loans?

The response of Abbott to these events, apart from raising legitimate criticisms, is that he will bypass the state governments and deal directly with the agencies, such as schools and hospitals.

But his government's attempt to deal directly with just one small regional hospital, the Mersey Hospital in Tasmania, was extremely time-consuming, complex, costly and largely pointless.

The alternative for Abbott is to propose a complete overhaul of the federal compact in which an appropriate and central role for state governments is established. A part of this new compact would be a rethink of federal-state financial relations, to reduce the

extent of vertical fiscal imbalance as well as improve the way in which federal monies are allocated among the states.

He could also pledge to revisit the many sensible recommendations of the Henry review that, in combination, could lead to more efficient and equitable tax collection while reducing the total tax take.

It is good to see Joe Hockey canvassing this possibility.

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