

# Australia's political and economic history since Whitlam

John Kerin's notes accompanying his presentations to the University of the Third Age course "Great Policy Reforms of the last 40 years", Canberra, 25 September 2018.

## Context

I would like to be able to talk about "Political Morality and the Crisis in Democracy", because some of the ills we now see in Australian politics are common in the industrially developed economies, but I would need more time to prepare.

What is politics? To my mind it is the peaceful resolution of conflict. If we were all agreed there would be no need for politics. Political choices arise in any setting where people get together, be it a P&C, a body corporate or the residents of a retirement village.

The programme Alex, Ian McAuley and I have been running this year concentrates on the policy (political) reforms of the past 30-40 years and their results. Although some of the past reforms continue to influence our governance from their original initiation, it is my view that some of the results are often not related to the reforms over the 30-40 year period.

This is because of the pace of change and the need to understand that change is a constant, but also, fundamentally, because things are just so different today to what they were in the last two decades of the last century, although in hindsight all the signs were there. The years of this century have been ones of disruption. The digital times we are in are only one of any number of characteristics which did not prevail 40 years ago. Communications have become instant, technological change is quickening, the workplace is vastly changed and families face different challenges. Climate change is probably an existential threat but it is only one of others. The dominance of the financial sector is now economically profound.

On the other hand there some problems causing dissonance today that have come from incremental changes over the last 30-40 years, particularly with respect to institutional and administrative changes: for example, the gradual cutting of funds to institutions such as the universities, the ABC, the CSIRO and our regulatory authorities, and decisions such as budgeting for constant efficiency dividends in public organisations. Further, to my mind, has been the downgrading of the Australian Public Service.

## A personal political history

I was in the Parliament from 1972 until 1993 – Whitlam to Keating – with one short break, and I had five Ministerial positions. There have only been between 1200 and 1300 people elected to the House of Representatives since Federation. I have been part of a very privileged cohort, and I am still trying to learn more about the society we are all part of and our different ways of thinking.

Being born in 1937 I have strong memories of WW2 and being interested in politics and more importantly *policy* from 1955 and actively involved in the ALP since 1965, with one period when I resigned from the ALP, I have a long political memory.

I have been reluctant to be part of U3A because I am clearly of one political persuasion. It can be always claimed that I am biased, not objective. So, without apology, you have to accept that I

style myself as a social democrat and I believe in collectivist approaches to policy making rather than individualistic approaches. I believe that we are all part of the one society and that we all need to look after each other to some degree, even when we are now such a multicultural and multi-ethnic society. I believe that societies function best when there is agreement about shared values and apt policies as solutions to challenges. I think it is better to be empathetic and tolerant rather than divisive and destructive.

I believe that the economy is there to serve the people, not the reverse, and that people do not have to pay obeisance to the market in every aspect of their being or believe in disproven economic theories, such as 'trickle down' economics, for the enhancement of their well being, because politicians are ideologically wedded to a particular macro-economic theory.

I am in favour of policies which are contemporarily relevant and stress equality of opportunity and/or are not directed to increasing inequality (such as we currently have in income distribution, wealth, housing and education). I have the perspective of an economist, where everything is related to everything else, but this emphasis has been a flaw, politically. The best policies, evidence and expertise based, are the best politics.

I apologise to people here of strong opposition to my political philosophy or ideology: how people vote is their own business and we are still some form of a democracy.

I think we have been propagandised into believing that the economy is the only thing that matters over the last three or four decades; as if every daily movement on the stock exchange is of some critical significance. For a government to be effective it also needs to be socially and culturally very aware, to realize that environmental matters are of increasing importance to many people and that policy should be directed to areas of well being beyond the purely economic. In a time of increasing complexity and an inability to escape global trends, fears can easily arise to be exploited by the unscrupulous with appeals to populism, racism and nationalism. Fear of immigrants was probably the main reason for the British voting for Brexit (as well as the lies told to the voters) and the GFC, obscene US inequality in income and wealth, fear and industry structure were probably the main reasons for a minority of the US electorate voting for Trump.

### **Australia's political and economic structure**

However, having confessed the error of my ways, if I only put my economic hat on, then I have many concerns about the strength of the Australian economy and lack of attention being given to many issues, mainly about our economic structure. Since the 1990s we were supposed to have suffered 'reform fatigue' ("all pain, no gain" was the cry) and thereby most economic debates have since focussed on fiscal policy and the size of the budget deficit, all often accompanied by misleading and plainly wrong analyses, spin and propaganda to suit governments and ministers. There is never much discussion about our economic structure or what I call 'market design'.

Time does not allow a full analysis, but the structural weaknesses I see are related to our commodity dependence, static or declining education standards, poor transport and communication structure (the debate on Sydney's second airport started in the late 1960s, the first sod was turned yesterday), low productivity and inflexibility, labour force participation, expectations of high and easy profits, a tax regime favouring speculation and withdrawal of

profits over patient investment, easy returns and rent seeking, cost-based competition (instead of innovation), dependence on foreign capital, widening inequality and a weakening of the link between contribution and reward, the burden of the financial sector (now 8.4 per cent of GDP compared with 2.4 per cent in the early 1980s), emerging technological unemployment, an obsession with small government, nineteenth century institutions and policy instability. This has not been helped by having seven Prime Ministers since 2007 (some bent on destruction or cultivation of their egos), constant Ministerial shuffles and a downgrading of the intellectual capacity of the Australian Public Service (APS). (My thanks to Ian McAuley for this listing). In my time I got sick to death of hearing that you can't pick winners and that the market will solve all problems, including a constant mis-interpretation of the words of Adam Smith – the ancient economist. There is still a lot of room for micro-economic reform in Australian government policy.

You see what a worried little bush-economist I am, but the Australian economy is very vulnerable.

So, in this time we are all looking for 'strong leaders' and people to lead us who are more aware of the need to move from the short term, when the average time of a Parliament at national level is a little over two and a half years. We desperately need four year parliamentary terms and a re-focussing of the Federation to enable some policies to be truly national (e.g energy policy), but don't expect the States to agree or give up their Constitutional powers: two of our states will always threaten to secede.

At times like this some people look for strong leaders or 'leadership', undefined – nothing much is new. A French social theorist, Gustav Le Bon, analysed crowd psychology which influenced figures as various as Theodore Roosevelt, Mussolini, Sigmund Freud and Hitler. Crowds in modern urban society were held to be irrational and malleable, and their emotions can be harnessed and manipulated by leaders who know how to exploit their irrationality. Add fear, ignorance and prejudice to the mix and you explain President Trump's so called 'base' and his constant campaigning and governing by Executive Orders as if he is running a reality TV show. The Emperor has no clothes, but no-one will call him out. I am not sure that this is the leadership we need.

I worry when some of our politicians now talk about the 'base' to their parties as if this is a way to address policies for all, for the common good. In government, it is essential to try to govern for everyone regardless of the many strands of thought that make up those political parties capable of governing, which must engage in negotiation, compromise and trade off to some degree. It is always worse if politicians lie and use spin or cultivate fear and greed.

Political leadership is about leading a community or a society to embrace and adapt to necessary change-to give people a map through an issue. A problem today is that political decision-making moves slowly, compared to the pace of change in other aspects of society, for example ten years without a clear policy on climate change and energy or sensible tax reform, where we have an electorate which is mostly disinterested, and when changes beyond our control are occurring rapidly. Much of this is because of the adversarial nature of our parliaments and because campaign slogans pass for policies in a climate of constant campaigning and shorter attention spans by the electorate. We see parliamentary processes such as when Minister Julie Bishop introduced a White Paper on our foreign policy. It was given to the Murdoch press and as far as I know was never debated. The Parliament is being ignored except for the theatre of Question Time and feeding the media with issues they can 'beat up'. Parliamentary Committee work remains strong but is often irrelevant to government processes.

Let's quickly go back a little way: nearly all of us have seen massive change in our lives. I have a long political memory (but can't remember what I did yesterday). It was all a lot slower once and things were so much less complicated. I've only ever applied for two jobs: jobs were just there for the picking and I have had four distinct working lives. For all the time I was in the Parliament, unemployment and welfare services were the main issues at electorate level.

By the late 1960s the long post WW2 boom was over. This was a time when John McEwen, revered Leader of the Country Party, only ever had one Press Conference and Bob Menzies could sail to the UK to watch the cricket tests and sail back. The pace has more than gradually changed since these halcyon days.

In my time, back in the 1980s, I would fly to Tokyo overnight, spend a day, allegedly negotiating with the inflexible Japanese over the next day, say on beef quotas, and fly back the next night.

Today MPs receive about 3000 to 400 emails a day, are submerged in reports and papers, are subject to constant demands for access by interest groups and rent seekers, subject to all the wiles of lobbyists (483 registered nationally), the PR industry, their constituencies, their parties and factions within, the demands of their major support groups and the ideology of the Murdoch media and mis-perceptions or the story making of the other conventional media, the radio shock jocks and the abuse of social media. As well today's politicians have to deal with the politics of fear, resentment and retrenchment as well as all the 'wicked issues', some international, such as, the choice of the US or China due to the oaf in the White House and the dominant position of Xi Jinping in Beijing.

I have a long memory: two things I have learnt, people do not vote on the basis of logic, fact and reason but on the basis of sentiment and perception (some are still rusted on and beyond argument). Second, that humankind will believe and do anything to fellow humans and nature without compunction – ask the people in Idlib or refugees in Manus and Nauru all about it. And yet, arousing sentiment or engaging in toxic politics is not enough except in the very short term because perceptions and playing to fear are often very wrong and very destructive.

Policies once were sold by political parties over years; the debate on the American War in Vietnam and thereby foreign and defence policy were once fiercely debated in the Parliament and in the public arena. Whitlam prepared the way for the introduction of Medibank, economic restructuring, urban policies and law reforms over years. Policy conferences and real debates were once held in town halls and conference centres. The Liberal Party has conferences and Council meetings but policy decisions to be implemented remain with its elected representatives when in government on the basis of the party's philosophy or ideology. The ALP still has a platform and a full gamut of policies but it became 'spooked' when the unworkable ideas emanating from individuals and factions in conferences became damaging and were beaten up by the conservative press at the time. I believe it was this that gave us today's impression that our major political parties only emphasise the most publicised policies or some single issues in an election setting and that the leader is almost the sole focus of all wisdom and attention.

We are better educated than ever, but it seems to be assumed that we can't understand debate, ideas, choices and difference. Further, because the major parties have shrinking rank and file memberships, the 'professionals' in the administrative organs of political parties have taken over to the extent that the best candidates are not chosen for pre-selection and the committed

extremes are given more of a say on some issues. I hasten to assure you that the ALP is not about to let the CFMMEU take over the country nor that the Liberals will bring back the gallows – though if Dutton had been elected P.M. by his party??

So, today we see that the Greens have taken over what was once painted as the ‘mad left’ in the ALP and the likes of Hanson, Katter, Palmer and a number of fringe conservative parties and organisations are abstracting votes from the Liberal Party. It would be disastrous if the two major parties fell back into capital versus labour conflict, pure and simple, as if our political parties are only interest based. On the other hand it is clear that the Liberals’ ‘base’ is big business and the ALP’s ‘base’ is the union movement, but perhaps the rise of the smaller parties and appealing independents is because both major parties have headed for the centre rather than trying to embrace some issues some constituents are concerned about, or have the major parties lost trust? Or is the electorate becoming increasingly uninformed?

And for all our complaints, whether we think it or like it or not, most of us have never been better off. Perhaps we have proved that the Australian economy is strong enough to withstand any government? Is our ‘success’ the reason for our political dissonance is because we have had some 27 years of economic growth and many younger voters have never experienced a recession and expect an ever expanding standard of living? We could solve most of the problems of the worse off if we prioritised certain policies, but a reforming political party and its leaders would have to bring the public with it. Policies can’t be sold cold on a take it or leave it basis ; they have to be explained and reasoned through.

### **The Course Alex, Ian and I Have Been Running this Year**

So, to the topic in hand, that being what Alex’s Group has been discussing this year.

- The last 30-40 years takes us back until 1978, the time of the Fraser Government.
- However, Alex, Ian McAuley and I decided that 1972 marked the end of the Menzies Era and that in its latter years it had been coasting, that the Whitlam Government was a truly reforming government and that its legacy persisted into the 1970s under Fraser (and well into the 1980s and even now). Fraser, a ‘feudalist’, was hamstrung by international economic conditions and stagflation.
- It is important to realise that although our economy is about the 13th or 14th largest on the planet, and we are relatively very rich per capita, we have a very small population, comparatively, and that other economies are quickly overtaking us. Globalisation is more real than ever. High levels of immigration have been boosting our economy and 66 per cent of all new jobs are being taken by skills-based newcomers. That explain our jobs growth – not that this will be admitted. Yet worldwide immigration and massive refugee flows are now causing massive problems of adjustment and causing parties of the extreme right to be on the rise.
- This means we cannot escape world economic, social, environmental and cultural trends. We tend to import our Recessions from abroad and certainly have since the 1970s when the US Government suspended the Bretton Woods Agreements put in place after WW2 and did not pay for the American War in Vietnam but made the rest of the world pay for it

by exchange rate manipulation and unwise overseas investment. Nixon had a Prices and Incomes policy and an Economic Plan, neither amounting to much after his re-election.

- Whitlam was a true reformer and much of the legacy of that government stands. However, the early 1970s was not the time for a reforming government and mistakes were made: the Cabinet was full of old men who had sat through 23 years of grinding Opposition.
- It was because of 23 years of one party in government and the development of a 'Mandarinate' of very powerful public servants, that the Whitlam Government moved to requiring that the APS to respond more to the wishes of the government of the day. This seemed reasonable at the time but more and more power is now centring in the Office of the Prime Minister. Whitlam may have had 15 staff, Hawke had 24-26, Howard more, Abbott 55, Turnbull 59. Today we have 30 Ministers, 12 Parliamentary Secretaries, all with staffs, and there have been 18 ministerial re-shuffles since 2013.
- On the APS I am afraid I have the view that Australia is too small a country not to have a first class public service and that the measure of a public service in the policy departments is the quality of options placed before Ministers and Governments.
- The Liberals eventually gave up opposing national health insurance (by 1984) though they have since tried to privatise many elements of health policy. None the less this has been a reform which has survived. Dozens of reforms were introduced by the Whitlam Government in three years, such as the Trade Practices Act, the IAC, the ACCC, the Expenditure Review Committee, a major review of the APS, the Schools Commission, needs-based education funding, the Universities Commission, 'free' university fees, tariff cuts across the board, Commonwealth health clinics, equal rights for women, paid maternal leave for public servants, indigenous land rights, establishment of the Department of Urban and Regional Development (DURD the first Environment Department and Minister), establishment of the Federal Court, the Law Reform Commission, the Family Law Court, no fault divorce, the formation of Australia Post and Telecom, a merger of the five Defence departments, an end to conscription, withdrawal of the last troops from of Vietnam etc etc – too many to list. Can you imagine such a program happening today in three years, if the government had not changed in 1972, and was it not all afforded?
- The Fraser Government did all it could to hamstring Medibank, but did not eliminate all these reforms. DURD, cities and regional development fell off the map and the Federal Court was curtailed, but re-installed by the Hawke government.
- The Fraser period was more one of consolidation and dealing with worldwide economic stagflation. The recession and drought in the last 3-4 years of his government made governing difficult. Fraser did not entertain racism or dog whistling on immigration – his philosophy was 'feudal' not hard, reactionary right. His Government was not marked by substantial reforms but by better government in or by way of reaction.
- Hayden prepared Labor for government having learnt the lessons of the Whitlam Government in both economic and administrative terms and the Shadow Ministry worked hard on policies and priorities. We knew what we would be doing.

- The Hawke/ Keating Governments were hell bent on reform but, like Whitlam, we had brought the people with us, or had to, on many reforms, or international pressures made some reforms inevitable such as the deregulation of banking, freedom for the Australian Reserve Bank (ARB) and the floating of the A\$ (real reforms which persist to this day), tariff reform as well as general industry reform in agriculture, minerals and energy, micro-economic reform in many industry sectors and in trade policy such as, the Cairns Group and the Uruguay Round. We promoted competition policy and pursued strict budgetary policy. Then there was tertiary education reform (HECs), tourism promotion, and in social welfare the social wage and the social welfare net and Superannuation Guarantee Levy (a real reform) to name a few.
- We opened up the economy to the world and eliminated some of the institutional blockages to more relevant policies including some resistance by established power in the bureaucracy. The Hawke/Keating Governments remained social democratic governments – the Accord ensured that – and it was not one totally bending to Thatcherism. It survived the US economic stupidity of Wall Street and the Savings and Loan stock market crash of 1987, but didn't escape the recession in 1991. We later escaped the worst of the dot/com crash (2000) and the ASEAN meltdown but only escaped the GFC by the skin of our teeth. We are now vulnerable if Trump's ignorant, nationalistic, mercantilist Trade Experiment brings the dire results it could.
- The days of the 1980s were the days of Thatcherism and the economic irresponsibility of Reagan.
- The Thatcherite ideology was rather simple: quote, "Deregulate financial markets, lower taxes, privatise state-owned industries, let companies and individuals get as rich as they possibly can and all will be well. Yes, it will lead to inequality, but it will also increase wealth and wealth will drag up the poor people" as Mrs Thatcher put it. The 'trickle down' theory is still alive and well today: the latest tax cuts are a good example even if being lied about in detail.
- Hawke Keating only had four privatisations. I disagreed with two of them: the Commonwealth Serum Laboratories and the Commonwealth Bank, even though when Treasurer I was tasked with virtually giving the CBA to the big end of town-\$5.40 a share!
- Howard initiated the practice of trying to change or eliminate much, if not most, of what had gone before (except in the economic area) with public program and departmental cost-cutting and defining Australian society more in cultural terms to suit his idea of what our society should look like. Administratively, he concentrated power in the Prime Minister's Office, negating the role of PM and C in co-ordinating policy. He set the ARB completely free and instituted several measures such as APRA which probably prevented our big four banks from being as irresponsible in the Anglo-American and developed worlds' banks. He was a reformer, had core and non-core policies, but was driven to shape Australia more into his desire for cultural and social reforms based on the individual, the monarchy, conservative religious values and the family. He did not accept that we had 'reform fatigue'.

- Howard held the competing conservative forces together and brought the voters with him on the GST, his most substantial and probably essential reform. His philosophy was well to the right of Menzies and Fraser: he introduced the full gamut of Thatcherite neo-liberal policies of deregulation, outsourcing, contracting, privatisation etc. (In contrast it was Menzies who first spoke of civilising capitalism.) Howard was able to keep the anti-science National Party in its box to a workable degree. He was fortunate in having a once in a lifetime minerals and energy boom, which enabled his government to introduce much so-called middle class welfare, many tax cuts and many popular policies of dubious long-term value, such as in housing. He combated Hanson's populism and racism by stealing some of her clothes. He got us into the US's silly bloody war in Iraq and Afghanistan, now by far our longest war.
- Generically Howard stood for fiscal reform (at first), labour market deregulation, de-regulation in general, privatisation, out sourcing, contracting, mutual obligation, tax reform, stronger border protection, funding 'choice' in health and education (that is choice to go private), strong anti-terror laws, and clearer alignment with the US. I have the full list of all that happened including many I disagreed with but if I rattle through them it will show my bias too well. Howard's approach to private education, which continues to this day is an area I particularly oppose.
- To my mind the worst economic decisions were the halving of the capital gains tax rate, the introduction of the senior Australians tax offset, the introduction of tax-free superannuation for people over 60, the one year window in which people could put \$1million extra into 'super', allowing self managed superannuation funds to speculate in property and first home owner grants in established houses and a raft of non-means tested welfare payments such as the private health insurance rebate and the baby bonus. I am sure many of you will not agree with me on these popular changes, but the concessions were only able to be afforded due to the mining boom.
- Howard's privatisations included Telstra, major State airports and the Commonwealth Employment Service The Australian National Shipping Line was flogged, the Australian Wheat Board was semi-privatised and the dairy and sugar industries were deregulated.
- Introduction of the family tax benefit A and B (ending up costing \$29.7b by 2007-8), more than the Defence Budget and Costello's baby bonus, also blew out the budget.
- The First Home Buyer's Grant, capital gains tax concession on property together with negative gearing had a two sided effect on housing affordability. This was emphasised once the setting changed to high levels of immigration and record low interest rates due to the GFC, such that 30 per cent of wage earners now cannot afford a house.
- Due to changes in aged care only three per cent of aged care homes are now government-run. If you want to know why we have to have Royal Commissions on banks and the financial sector and nursing homes, it is because they were let do what they wanted with regulatory authorities denied funds to operate. Abbott cut funding to ASIC in 2014, sacking 200 people, because the GFC had "educated the banks and business in what not to do". He recently said ASIC has failed.



- It is probable that Howard's Work Choices legislation was a step too far in trying to deregulate wages, but there was an accumulation of policies that were starting to be less popular and having unforeseen effects.
- You have to make up your own mind about the costs and benefits of the neo-liberal policies that governments since the 1980s have introduced. It is not an open and shut case and has been compounded by factors such as workplace insecurity, international conflicts, threats of trade wars, globalisation and increasing complexity, all of which leads people to 'shut off'. Similarly, I think we have to make up our own minds whether or not there is some magic percentage of public spending and income taxation. Push me hard and I'm in favour of higher taxation, but change can only come about slowly if we want to favour the delivery of services, well being and security over more income and wealth for individuals.
- 2007 defined the end of political leadership as I understand it and we have had 7 Prime Ministers in the last 11 years in a world that has vastly changed. Mark Latham's behaviour was an indication of what was to come. Prime Ministers and would-be Prime Ministers seemed no longer to be interested in responsible cabinet government nor were they inclined to trust ministers.
- The Rudd Government did save us from the GFC, to its eternal credit, not that it was or has been recognised for what it did. Rudd tried to restore the APS but continued to centre power in his office. The issue of asylum seekers was a particular problem for Rudd and we have to accept that over 60 per cent of Australian voters support locking up refugees off-shore; or do we? Where are the politicians who want to argue the legal and humane case? Once a M.P. in a really safe seat was prepared to take up causes on the basis of principle, not on conformity?
- The assurance given to the banks by Rudd as a GFC measure has been wickedly exploited-hence the strenuously-resisted Royal Commission by the Coalition. It is my view that the incentive schemes and bonuses introduced by banks, financial management companies and the insurance industry are the reason for the problems we see: take the money and run attitudes; forget the customers only; think of the shareholders and what can be ripped off.
- Rudd simply could not work with people, hence his parliamentary party turned on him, but it was a silly decision to sack him, none the less. He interfered in the work of his Ministers and adopted only one of Ken Henry's Taxation recommendations on a mining tax, without understanding the mining industry, gave up on Climate Change and then set about putting all his effort into bringing Julia Gillard down once he lost the support of his colleagues. This was a time when Abbott turned the parliament toxic with mindless sloganeering, cheered on by his business and media supporters and once in government seemed to not be able to give up opposition and had few thought through and known policies. He selected 15 hand-picked people to chair committees to investigate and advise on various policy challenges as well as trying to destroy processes he did not agree with such as measure on climate change and renewable energy sources.

- The Coalition became and remains split on a range of cultural issues (freedom of religion and speech, but not totally?) and on climate change; Labor is under the sway of the unions in an administrative and factional sense, but is addressing policy options.
- So today our familiar two party system is in disarray with nearly 30 per cent of the public voting for the likes of the Greens, Hanson, Katter, Xenophon, Palmer and minor parties or independents.
- My only observation is that this is the fault of the major parties and that they should concentrate on policies, not politics, and sell and explain their policies well before assuming the responsibility of government, as difficult as it may be in a world where change is constant and where people show signs of failure to adjust to complexity and the speed of change.
- I really do wish if there was more of an element of intellectuality in our governance rather than what we see today where people are talked down to, the lowest common denominator rules and the glib and 'smart-Alecky' or populist slogans passes for policy.

Thank You