

Background notes

***How Fiscal Policy Can Help  
Build A Better Society***

Bernie Fraser

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Like a ship tossed upon stormy seas our society is in turbulent waters.

These notes make some big picture personal observations on how we have come to be in this predicament. My talk on Wednesday will suggest some changes to our current approach to fiscal policy that could help to steer Australia towards a better, fairer society. Hopefully the background sketched in these notes will be helpful in understanding where these suggestions are coming from, and the nature of the problems they seek to address.

## ***A Vision Dashed***

A couple of decades ago Australia seemed well placed to move onto better things. The economy had recovered from the sharp but short recession of the early 1990s, and its long-running winning growth streak was underway. Population was also growing at a good clip and multiculturalism held sway over pockets of discrimination.

Growing confidence outside our borders was reflected in our embrace of international markets and in the beginnings of a more independent foreign policy, with a particular tilt towards China and Asia generally. Australia was also a conscientious participant in various international endeavours and still boasted a reasonably respectable foreign aid budget.

Given these platforms it was not wildly fanciful to imagine that Australia might go on to become a rather special kind of society, combining a good measure of competency, fairness and compassion, and lighting a path which other countries might wish to follow.

Fast forward to to-day and that vision has gone, wiped away by multiple short-comings in governance, policy making and value settings over the intervening years. On many measures our society is now less fair, less compassionate and more divided than it was twenty years ago. And certainly more devoid of trust in almost every field of human activity. As a disinterested player in climate change negotiations and a miserable foreign aid donor, we have slipped well down the list of good global citizens.

These outcomes have disadvantaged and disappointed large numbers of Australians. Many have become angry. Those emotions have been heightened by a widespread and perfectly reasonable belief that, after such a long period of sustained

economic growth, significant improvements in community well-being should have occurred and touched all members of society.

### ***A Winx-like Performance***

By any standard, 27 successive years of economic growth is a stand-out performance. It is Winx-like.

Political leaders often say (or imply) that this is all down to their superior economic management and policy skills. With the notable exception of Australia's much better-than-average response to the GFC, however, the contribution of government policies was modest compared with that coming from the Reserve Bank's guiding hand on monetary policy through out the whole period, and from the favourable spin-offs from China's phenomenal growth over most of the period. In the past couple of years Australia's economy has benefited from the long-delayed but now synchronised recoveries under way in a number of countries.

Irrespective of how credit is apportioned, Australia's growth performance clearly has generated lots of jobs and lots of government revenue. Jobs and revenues are critical inputs in building a prosperous, fairer society but they do not guarantee its emergence.

Much has been made, for example, of the recent strong jobs numbers, which are frequently lauded as clear evidence of the success of government policies. This improvement in employment—arguably the best result for policy makers in a long time — deserves to be applauded. But it should be qualified applause; after 27 years of continuous growth too many Australians remain unemployed, under-employed, under-skilled, under-paid and lack job security. The under-utilisation of our most valuable resource, the skill shortages which threaten

our on-going competitiveness in a technology driven world, and the unfair wage structures in many sectors do not make for a proud economic or social record.

In many other areas the failures of sustained economic growth to flow through to a fairer, more compassionate society are so obvious government policy makers know that drawing attention to them would attract more brickbats than applause. At the macro level any list of these failures is likely to include growing inequality in the distributions of income and wealth, and in the opportunities for lower income groups, and particularly for indigenous communities, to access decent standards of housing and health care; and serious backlogs of economic and social infrastructure. Other speakers are billed to discuss at least some of these issues.

The consequences of various policy failures at ground level will be known to participants who are familiar with the sterling efforts of the many volunteer and charitable organisations engaged in the care business. Members of these organisations know what real poverty looks like: every day they see the misery, anxiety and loss of self-esteem of mothers unable to put food on the table for their kids, of old and young homeless people, and the victims of domestic violence and drug overdoses. And they don't turn their eyes away, as many of us can do.

The people who are active at ground level all point to their continuing struggle to cope with increasing numbers of families and others requiring assistance. Again, as one of the world's richest countries, Australia can do better than this — and especially given that much acclaimed growth record.

## ***Disconnects and Divisive Ideologies***

How do we explain this disconnect between Australia's impressive economic growth story and its failure on so many markers to show progress towards a better, fairer society? In my view a large part of the answer lies in the influence of the political ideology of neoliberalism on policy making in Australia over much of the past few decades. In varying degrees similar influences and outcomes are evident in several other developed western countries.

At its highest level neoliberalism encourages policy makers to focus on their economies, rather than their societies, with an apparent presumption that what is good for the economy will be good for society, with limited need for government interventions. This line of thinking acquired some folk-lore status in the late 1990s when Bill Clinton, asked about policy priorities, reportedly responded "...it's all about the economy, Stupid ...". I have never been a fan of such thinking, preferring to see a strong economy as an important stepping stone to the ultimate goal of practically all policy making: the building of a secure, prosperous, fair and compassionate society. The Clinton line has prevailed in a number of developed western countries, including Australia, for some decades now with increasingly obvious short-comings.

If the broad focus of neoliberalism on economic rather than social issues is detrimental to the advancement of the latter, some of its more specific drivers (and their implications for fiscal policies in particular) are much more so and provide scope for major disconnects between economic growth and social benefit. Favouring the market system ahead of the state system, and individual interests ahead of community interests, can lead to profoundly unfair social outcomes. Those unable to afford access to decent standards of housing, health care, and other essential services have to settle for inferior arrangements, or go without. If investments in social infrastructure and cleaner

environments fail to measure up to market requirements, don't expect governments to rush in to fill the gaps.

In fiscal policy terms the key thrusts of neoliberalism are reflected in the pursuit of the lowest possible rates of income and most other taxes and the maximum restraint on government interventions and spending programs: with few exceptions, the latter are seen as vexatious at best and much worse when they require increases in taxes or debt to pay for them. Again there is plenty of evidence here and overseas of the influence of this kind of thinking on fiscal policy making, and the misery and social polarisation that has come with it.

If a major tipping point event was required to mark the use-by date of neoliberalism it should have come with the GFC; and been very visible, in both the policies leading up to the crisis and again in the policies adopted in several countries in response to crisis, which exacerbated and prolonged the miseries of hundreds of millions of people.

Financial markets and institutions in the US and Europe imploded in 2008, ushering in the most severe economic upheaval since the 1930s.

This followed several years of investments in dodgy home mortgages and products derived from them, in an environment where light-handed regulation and unbridled greed brushed aside prudent risk considerations. This shattered the idealised view of financial markets being self-regulating. It also shocked a very prominent neoliberalist in the person of Alan Greenspan who said he had always believed that market forces would prevent such excesses from occurring, and he had to confess that he was wrong.

Australia avoided the worst traumas of the GFC, partly because it had maintained a hands-on approach to financial regulation in

the years preceding the crisis, and partly because the authorities acted promptly and decisively with full-on monetary and fiscal actions when the contagion spread. Other countries responded in different ways. The US initially lent heavily on both their fiscal and monetary policy levers until the former was largely locked up by Tea Party Republicans in Congress, putting most of the recovery effort onto monetary policy.

In Europe the response was rather different again, and in particularly in continental Europe where concerns about the viability of the Euro Block heightened the perceived dangers of any actions that would increase budget deficits and government debt. Here was the kind of response neo-liberalists would applaud: with pressure from the financial sector, taxes were increased and spending programs slashed, all on the theory that falling budget deficits and debt levels, combined with an accommodating monetary policy, would charge private entrepreneurs so full of confidence they would rush off to invest, thereby reviving economic activity and employment. The outcome for most of these countries was another 5 or 6 years of severe recession, low economic growth and high unemployment.

On top of its failures to deliver idealised outcomes, the GFC also demonstrated the dishonesty of the neo-liberalist approach. A corollary of its pro-market anti-government philosophy is that private businesses which get into difficulties should not expect governments to bail them out. This did not prevent many banks and other financial institutions in the US and Europe fronting up for massive bailouts: never have so few damaged so many for so much taxpayer's money.

The GFC and similar but less emphatic experiences should have put neo-liberalism on the ropes, but that hasn't happened yet. As a political ideology it is currently stirring up more social disharmony and instability than ever. It has also sprung off-

shoots and competitors, whose activities serve to further polarise community attitudes in Australia. Other countries can point to not dissimilar developments.

Indeed it has gone further: where the focus previously was on the interests of individuals being placed above those of their communities, individual countries are now increasingly seeking to put their interests ahead of other members of the community of nations. This is worrying: it ignores the reality of just how small the world has become in many ways over recent decades. It also ignores the reality that sustainable solutions to so many critical issues - including getting a grip on climate change, expanding global trade, tackling cross border tax avoidance, and coping with flows of refugees - require conscientious international negotiation and effective multilateral institutions. The spread of current expressions of national sovereignty would likely make the world a less prosperous and more dangerous place.

These background notes focus on neo-liberalism but all political ideologies are inherently divisive to some degree; the further they are pushed towards the extreme end of the spectrum the more divisive they become and the greater the damage they do, before pressures build up to the point of forcing changes to the approach or to its replacement. This is likely to be just as true of an ideology based on a state system as is of one based on a market system (like neo-liberalism, which came to life in the 1970s and 1980s on the back of what by then were troubled and bastardised versions of Keynesian in some western developed countries).

The focus on neo-liberalism in these notes reflects the fact that, notwithstanding its shortcomings, it remains in vogue in Australia and the present government remains committed to it. The government continues to reaffirm its over-riding commitment to lower taxation, and to assert that this is the best

way to increase investment, jobs and economic growth - despite the lack of evidence to support the theory. The commitment is also communicated in short grabs like lower taxes make stronger economies; if you control taxation you control spending; it is "offensive " to ask people to pay taxes rather than allow them to spend their money on their own choices; governments have to live within their means; charity begins at home; and so on.

These notes labour the point that political ideologies can have a major influence on fiscal outcomes which may not always be in the general public's best interests. Indeed, over the past couple of decades appears to have contributed to - rather than ameliorated - areas of inequality and disadvantage in Australia. The political ideology in play over most of that period is the same ideology that the present government has been committed to and has indicated it intends to stay with. All this suggests that the scope for making changes to current arrangements which might deliver fairer outcomes is rather limited at this time.

It is frustrating to see possible ways of improving things but to know they are likely to be stymied by ideology. It reminds me of my stint with the Climate Change Authority. At the same time, governments have the right to align their policies with any ideology they choose, and no one is suggesting that politics be frozen out of fiscal (or other) policy making.

In these circumstances the best course usually is to hammer away at what are seen as the flaws and damaging consequences of particular approaches and hope that over time desirable changes will come - either because some policy makers themselves have rethought their positions in the light of more credible information, or as a result of pressures from outsiders who have a passion for social justice and are prepared to fight on for a better and fairer society. For me, the

avoidance of costly tax cuts accruing to large corporations is an encouraging demonstration of what is possible when enough policy makers (and all parliamentarians are potentially definitive policy makers these days) are open-minded and attach their highest priority to community interests. (On the other hand, the quick done-deal on the accelerated introduction of tax cuts for small businesses, without further scrutiny, is a reminder that political interests are always lurking nearby.)

Bernie Fraser

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