



CIS EVENT

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Australia's Future in the Balance: Overcoming Antagonism & Reigniting Enterprise & Prosperity



Wolfgang Kasper and Paul Kelly

Following economic reforms that began in 1983 and petered out around 2003, Australians enjoyed the greatest advance in their living standards since Federation. But the lagged effects of those reforms have now subsided and the post-2003 upsurge in our terms of trade is being reversed.

Neither the political elites nor the wider public appear to have come to terms with this new, more sober reality. The policy climate has turned antagonistic, populist and obstructive. Fiscal discipline has been consigned to the 'too hard' basket. There is a new emphasis on redistribution of wealth rather than producing it, and on short-term demand manipulation instead of policies to enhance the economy's flexibility and bolster its long-term growth potential. In the present policy climate, there is a real risk of a protracted national malaise,

repeating the trauma of the Whitlam-Fraser era. What is now needed is renewed focus on the fundamental conditions that will shape our future as a free, open and enterprising society under small and modest governments, firmly anchored in Western civilisation.

These fundamental questions – and practical policy decisions that would flow from them – were discussed by Prof. *Emeritus* Wolfgang Kasper, lead author of the *Australia at the Crossroads* initiative that foreshadowed the reforms begun in 1983, Paul Kelly, the eminent journalist and analyst of Australia's recent political and economic history and Robert Carling, Senior Fellow at The Centre for Independent Studies.

Wolfgang Kasper

The title of this evening's event is "Australia's Future in the Balance". Actually, I don't think so...!

I say this at the risk of being labelled a clown by our bonhomie-radiating Treasurer. But if we consider economic growth, we have been drifting downwards. From my understanding of long-term economic development, that is also to be the most likely outcome in the next 10 years or so.

But the main message I want to leave behind tonight is it is not unavoidable. We can do something about it now.

When, some 50 years ago, I served my apprenticeship as an analyst in applied political economy working for the German Council of Economic Advisers and OECD, I learned that growth measures the increase in the supply of goods and services per capita over the medium- to long-term. It's not a year-to-year or quarter-to-quarter phenomenon. You adjust national production for inflation and take out the cyclical, seasonal and weather variations (graph).

Economic growth is never steady. Over the short- to medium-term, it always fluctuates. Over the long-term, decades are above the secular trend alternate with those below.

If we think about the case of Australia over the past 40 years, we see that – in the Whitlam Fraser years – we were well below the trend. I was new in the country at the time and found that the policies here confused and amounting to monetary masochism. Because of protection and structural rigidity, macroeconomic policy was toothless. The upswings in the business cycle (that short three-to-five year cycle of aggregate demand) were weak, unemployment ratcheted up, inflation was entrenched, there was much discussion about income redistribution. It was not a happy time—at least not from where I was in Canberra.

We had another big event in the early 80s: the second oil crisis and a wage explosion which led to a recession. We then had the famous Keating "cleansing or sobering-up crisis"—that "we had to have". And more recently a big event was of course Wayne Swan's spendathon: a world-record swing from surplus into deficits; and the effects on economic growth were minimal. Big cost, small benefit!

If we stand back a little further, we see that there were two periods of deceleration into below-trend territory and a period of acceleration into above-trend growth (1983-2003).

This pattern of an alteration between generation spans of negative and then positive surprises for most people is well known in economics. It reflects what economic historians have long documented and what is known in the literature by the name of the 'Kondratieff Cycle'—named for a Russian Marxist statistician, who did a lot of work 100 years ago to study the capitalist system. He established that Marx's 'crisis of capitalism' was not terminal, but sooner or later was followed by generation-long accelerations of economic growth. ... Kondratieff understood even more about waves than Kelly Slater.

These long waves of economic growth are a socio-psychological phenomenon. It seems that the public mood—the *zeitgeist*, as the Germans would say—swings between generations of innovation, youth, reform and a generation that takes economic growth for granted. Things

then slow down, untenable social economic positions are defended by political lobbying, worries about income distribution are ubiquitous. The vigour of the market is replaced by the rigour of collective action.

Though not by nature a Jeremiah, I think that we are now in a Kondratieff down-wave. Therefore, we have to think very hard about what if we will get something like a repetition of the Fraser-Whitlam experience (see above). That would mean that the next up-wave will be delayed until 2025 or so. On the other hand, as I show in *The Case for a New Australian Settlement*, we could become a front runner that catches the next up-wave early, if we play our cards right.

What can be done? To answer this question, you need a theory. My study of long-term economic history and my understanding of international comparisons—why certain countries have economic growth and others don't—suggests to me a theory of economic growth, which runs roughly like this: The economic literature states that the supply of goods and services and its growth begins with the mobilisation of production factors. Economic growth happens when more labour and skills are being utilised, when more capital and technology is employed, when more natural resources are tapped.

But these are only proximate explanations of growth. The immediate question then is: why do some countries in some periods, for example, employ and develop more skills, and others don't? Why, for example, do some countries develop natural resources and others die of the fear of fracking? And the answer to that proximate explication is of course that there is either the right entrepreneurship or it is lacking. Entrepreneurship is a general quality in people, not only in businesspeople ... it's in private people as well. Of course, there are producers, who think about new knowledge, new products and new production processes, although they know that it is risky to develop and test new knowledge. It is always risky: Will a new idea be technically feasible? Will the market make it commercially feasible, i.e. profitable? Entrepreneurship is also present for example when young people invest in themselves: do they acquire the right job-ready skills, or prepare themselves to become couch potatoes?

Now all this is very risky. People have to incur high costs without knowing whether they will reap the hoped-for benefits. To confine the risk, we must surround the entrepreneurial culture by what the literature calls 'institutions'—trustworthy, enforced 'traffic rules'. In the first instances, these are the mores: reliability, honesty, the work habits of people, the customs—what, in a recent Bonython Lecture, Deirdre McCloskey called 'the bourgeois virtues'. And of course, there must also be the right government-made rules: legislation, administrative regulations, how the courts decide conflicts and interpret matters. What matters for the economy and economic growth are of course secure private property rights and the freedom, or otherwise, of their use. Some call this economic freedom, others say that growth requires the right economic order. That is a concept, which is not much used in Australian parliaments.

But then you have to go on and ask: why does economic freedom flourish in some places and at some stage, but not elsewhere? The decisive factors are not the institutions alone. What really ultimately matters are the shared fundamental values. They decide whether economic reforms are feasible or stymied. This of course goes beyond mere

economics. Some societies are lucky, because the people and their leaders share understandings that underpin valuable social capital. Good institutions are social capital. They are productive. The right values and institutions are absolutely key to the prosperity of a dynamic modern knowledge society. They are centrally important in service sector production, that sort of activity that now dominates the economy.

Fundamental conflicts about underlying values confuse societies, which then tend to fail economically. Societies that become unsure and antagonistic, easily start failing and produce less economic growth. Samuel Huntington, in his famous book about *The Clash of Civilisations*, talked about the importance of an agreed centre of social institutional gravity.

In the publication which is being released today by the CIS, I go through the various production factors and ask what are the likely trends, and what can politics—collective action—do to improve the supply of these production factors. I won't dwell on these details here. Instead, I want to focus on the fundamental values ... the framework within which we produce and risk new ideas. The question I want to ask is: could we possibly agree on a new set of fundamental understandings appropriate to a future Australia that would thrive in the global knowledge economy?

Some such basic understanding would be very useful in my opinion. Fundamental agreements on what sort of a country do we really want to leave behind to our children? What sort of a community do we want to be?

After Federation, we got what Paul Kelly called the 'Australian Settlement': certain shared, abstract understandings. For better or for worse, they served to create a certain policy cohesion, which helped Australia's economic development and underpinned a degree of social harmony. Of course, we also know that, post-1960s, these basic tenets became untenable one after the other, and we got *The End of Certainty*, as Paul described it in his celebrated book.

In the 80s and 90s, we had partial economic reforms, which helped our entrepreneurs to exploit the China boom. The China demand covered up the deficiency in our underlying shared social capital. It also covered up the fissiparous effects of the IT revolution—the fragmentation, the anti-authoritarian consequences that augmented the lack of basic understandings. In what I would call the "anti-social media", something new emerged, as fewer and fewer people read the same media, the same books and discuss the same issues.

Of course, diversity in social and political opinion and outlook can be enriching. But if we go beyond a certain level of cohesion about the principles and basic values, diversity becomes fractiousness and increases the entrepreneurial risks of producing in this country—of investing here. And that means slow economic growth. So, again my question is: can we subscribe to some fundamental principles, which constitute an intellectual and an emotional commitment, which can provide the final stopping point in policy debates?

I want to put to you a list of five elements.

The first: Australia should be, as it has been, committed to individual freedom -- self responsibility, tempered by respect for others. Most of us, the citizens, should spontaneously

reject proposals that violate our freedom. If it has been established in a debate about the certain policy proposal that it violates individual freedom, it should be laughed out of court. It should be dismissed. That's what I mean by 'final stopping point'.

A second basic principle that would serve us well is recognition that we are open to the world. Much progress has been made on this front, compared to the old protectionist era 40 or more years ago. But odd remnants are popping up every now and then. To just give you an example: Australia has much land; we're pretty good at building apartments and houses with gardens. Why do we frustrate this sort of "export", which doesn't even leave the country, by being xenophobic to well-to-do Chinese and Brits, who want to come here and see out part of their retirement years, enjoying the sunshine. It would be good for all sorts of high-value services, medical care, tourism *et cetera*. Why do we discriminate against them? Victoria has even a discriminatory tax against the Chinese. Why this emotionalism and xenophobia ... it doesn't fit us well.

Third, we should also be open to the future. We should laugh out of court the defensive lobbying by established groups, who were high in the pecking order and are now losing their socio-economic position because they have embraced wrong models of industry, production and so on. Let's reject that sort of rent seeking when politicians engage in it and when lobbyists ask for it. Let's embrace structural change. Everything that grows, changes the structure – a tree that grows, a child that grows into manhood or womanhood changes in structure. And let's remove the obstacles for innovators.

I know many people who want to test new productive ideas. But I can tell you that the people I talk to are not motivated by a 0.25% interest rate reduction to be enterprising or not. That doesn't trigger enterprise, although our Treasurer tried to make us believe that the other day. They are hindered by Occupational Health & Safety, by environmental regulations, *et cetera*, *et cetera*.

I know a case of a South Coast prawn farmer who had a very good project, the science all sorted out. He had already obtained a dozen permits and licenses, from local governments, state governments, federal authorities, which had cost him much money, nerves, and time. But then there was more coming, and vexatious labour market regulations on top of it all. So, he just gave up.

How many permits did Gina Reinhardt need for her new mine? It's preposterous! Confused, excessive regulation is the main problem with innovation and being open to the future.

All governments of course talk about war on paperwork—they always promise us that. But then they allow the lobbyists and the bureaucrats to inflate the regulatory burden. But everyone should know: red tape kills! -- kills private enterprise. Let's streamline. Let's remove the contradictions, make it simple, let's go to one-stop shops. Unfortunately, some Australian States have introduced one-stop shops, but it turns out that they are 'one more stop shops'.

The next one on my list for a fundamental rethinking is government. I want us to have a national discussion about whether we shouldn't have a *small, modest, competing* and *secular* government.

When I say *small*, I think we should cut back public spending to 25%, maybe 30%, of total demand. That's what it was in the Menzies era, that's what it is in East Asia. Why not?

I want us to be *modest* about it. We used to have Modest Members, but that was a while ago. Politicians should stop over-promising, especially on welfare. Governments cannot deliver, we know that. And NGO, lobbyists, the media, voters should know that big government is bad government. This is why governments fail, and why the big disappointments are producing a perilous disillusionment with democracy.

I want governments in Australia to be *competitive*. We have to rethink federalism. The Australian model of federalism, which is very centralised, is the last remnant, the last monument to the 'Great Australian Handout Tradition'. Its redistributionist and leads to irresponsibility. Canberra taxes, the States and local governments avoid the problem of taxation and get most funding from Canberra Centre by posturing, by lying at Premiers' conferences, and then hindering economic growth. It's just undignified how these Premiers' conferences are conducted.

We need a devolution of powers to a point where a government's functions can be done best. The technical word is 'subsidiarity', which is the essence of what is called competitive federalism, to end the cartel we now have of high taxing, big spending governments. The technical term again to throw in here is 'fiscal equivalence': each government is allotted or assigned certain tasks and raises the taxes to fulfil these tasks as it sees fit. In doing so, governments act in competition with each other. Some States or councils may promise less and tax less, others may try to provide gold-plated streetlights and tax the local citizens a bit more....

The newly minted Member of Parliament for Eden-Monaro, Peter Hendy, has some very good ideas about this reform as a basis for reshaping the federation. I wholeheartedly agree.

Once State and local governments are responsible for raising their own funds from the taxpayers, they will become interested in growing their own tax base, in cultivating local economic growth. Just to give you an example of how things could happen: imagine that local governments got a share of the mining revenue in their district, can you imagine what would happen if a local government wrote to the electorate and said: "Should we allow fracking in our district and you get a 20% rate cut, or should we ban fracking forever and your rates will increase this year by 7%; and it is likely that in the future they will double in 10 years' time?" I bet you that Lismore would get cracking on fracking!!

If the States are responsible for raising their own resources, I bet you they will find big savings that now – we are told – are impossible to find. But we know that the welfare state is broken. We know that centrally-planned government monopolies tasked with delivering education, health care, public housing, and so on—administered by cumbersome, risk-averse administrations and dominated frequently by entrenched public sector unions—has become unaffordable.

Ineffectual service provision is another factor, I think an important one, in the disaffection with democracy in this and in European countries. I recommend to you a look at the Swedish experience of reforms about 10 years ago with charter schools that had to start competing for school vouchers. The quality of teaching went up enormously; good teachers really started to like it. And with hospital care, I find inspiring material in the trust hospitals in Spain and

in the UK: great savings, great quality improvements, the mobilisation of creativity, diversity—different communities need different types of service—and the mobilisation of local voluntary resources. People like to volunteer, they like to be engaged, and that's good for democracy!

Finally, I want the government to be *secular*. The atrocious European wars of religion have taught us that the separation of church and state is essential, absolutely essential, for social peace. And we must expect all immigrants to commit to this, otherwise they don't fit in here.

The last point in a New Australian Settlement: we have been and should be absolutely clear that we want to continue to be part of Western civilisation. Australia is exposed, we are an outrigger in the Asia-Pacific region, a frontline state of the West. Long-term investors need strategic clarity on that. We should acknowledge that we are becoming a multiracial country, that's fine. That's probably a great potential growth asset. But we must understand that this doesn't mean that we become a multicultural country. That leads to fractiousness and disruption.

Of course, we need substantial immigration to grow the labour force and much more. But we should be selective about whom we admit here. We should welcome those who fit in and who appreciate our basic values. We can judge which immigrant groups integrate by maybe assessing their workforce participation, intermarriage rates and incarceration rates. Because if we ignore these things, our skills base will suffer—and that's bad for economic growth. Welfare dependence will explode, and essential social capital will deteriorate further.

This list of five elements together is what I mean by a 'New Australian Settlement'. Getting them widely accepted will not be easy. Recent trends that we have observed in economic freedom have not been encouraging. They point, to my mind, to a continued Kondratieff downturn: to a slowdown into real economic crisis.

In the world as a whole, we have been stalling on economic freedom. There were massive improvements—Reagan and Thatcher, the fall of the Soviet Empire, China's capitalist revolution—they have triggered in the world at large (according to analysis of about 160 countries on average) the 'Golden Growth Era' of the 1980s and 90s. Now, it's stalling.

The US used to be the benchmark, but started to lose ground massively under Bush's compassionate conservatism and the engagement in costly wars without concern for the budget. Isn't that reminiscent of Tony Abbott sometimes?

And more recently of course we have had Obama's big society interventionism.. and now Clinton evokes Roosevelt—heaven forbid! So, the US does not look to me like becoming a leader again.

In Australia's history, economic freedom suffered from the Whitlam shock. It grossly diminished economic freedom and stimulated inflation. That had much to do with slowdown of Australian economic growth in the 70s and up to 1983. We then had the partial reforms by Hawke and Keating but they had two holy cows: labour markets and big welfare were untouched. Otherwise they were pretty good reforms. This was followed by partial reforms in the Howard-Costello era. The budget got sorted out, partial labour market reforms were gradually introduced, all of which accelerated the up-wave in economic growth that we all found so inspiring.

More freedom allowed Australian producers to meet the China demand better than some of our international competitors. Our boom became the envy of the Europeans. But the boom was not God-given. We earned it. If you know these export industries, you will appreciate that they competed successfully against other producers of coal and iron ore, because they were relatively free to do that.

In the late Howard era, progress on economic freedom stalled, and we know that the Rudd-Gillard-Rudd backsliding on labour markets, and their government deficits, did great damage. I only wish that the Abbott-Hockey administration were not so clueless about economic freedom. It matters!!

Demand manipulation won't re-ignite real, long-term growth. Easy money, a bit of public spending, a mini tax cut here or there is not sufficient to power up the supply side.

When I speak like that, I'm of course at variance with the model builders that dominate the Treasury, with Keynesian bureaucrats who seek power to manipulate the levers of the economy. But I find myself in agreement with many business leaders and older citizens.

One short, final point: growth is a long-term supply side phenomenon. We cannot take the underlying economic order for granted. It needs regular conscious cultivation.

In my career, moving around the world and looking at success stories, I found time and again that economies that had an advocate for economic freedom and the supply side at the cabinet table were successful.

I grew up in post-war Germany where 'ordo liberalism'—as they called it—created a very quick recovery and record job creation. It was not an 'economic miracle'. It was good policy, good philosophy. I discovered the same in the Asian tiger countries.

For the present, I would invite you to look at the most successful growth success story in the Eurozone, which is Spain. The last three years the conservative government has had a *Ministry of the Economy and Competitiveness*, who is a very forceful voice at the cabinet table for long-term prosperity, freeing up labour markets, capital, natural resource development.

We are now facing, whether we like it or not, a new era of free trade thanks to all these new free trade and investment agreements. If we don't have a political agency within the government, the juggernaut of free trade from the US, Japan, Korea, China and globalisation generally, will destroy jobs in this country. We will be sitting there like rabbits in the glare of headlights. I would therefore propose a *Department of Economic Affairs* that argues for making the supply side flexible and fosters economic freedom. It can draw together the Productivity Commission, Trade, Industry, Industrial Relations to foster long-term prosperity.

Free trade and free investment is an opportunity. But we have to prepare for it. Growth and job creation are not automatic—I see too little realisation of that. If we remain rigid and reactionary-defensive, we'll prolong the era of disappointment and misery. All this of course goes beyond mere economics. It's a moral issue ultimately. We can't leave it to politicians, because they think too short-term, are too opportunistic. Maybe, they lack the courage and some lack the candle power to understand the underlying issues.

We therefore need a national debate, maybe initiated by groups of experienced leaders who could argue the merits of a 'New Settlement'. Let's discuss the pros and cons of what I'm proposing here and foster an understanding in our society of what it takes for prosperity and freedom.

Prof. Emeritus Wolfgang Kasper, lead author of the *Australia at the Crossroads* initiative that foreshadowed the reforms begun in 1983.

Paul Kelly

What I'm going to do tonight is to discuss the political system, look at defects in the political system briefly and then, even more briefly, talk about how we address these problems and move forward.

A lot of what I'm saying tonight is based on my book 'Triumph and Demise' and in particular, the last chapter called 'The Australian Crisis'. I think the state of the political system at the moment is pretty much the worst we've seen in the last 35 years or so. In my book I said after 23 years of economic growth plus a resources boom a bedrock complacency had taken hold.

It had various manifestations: a decline in self-reliance, a culture of complaint, the rise of social envy, a growing dependency on government, a political system based on bidding up expectations about government's capacity to satisfy more needs and wants with the probability that people will only grow more dissatisfied. Finally, I think the public has lost any sense of awareness of the reasons for Australia's prosperity over the past generation and a half. I believe this is an intellectual and moral failure.

I think the problems in the political system are multifaceted. I believe they won't be easy to solve. I think they go to technology, the structure of politics, our political culture. I think we need as a society to have a much more concerted discussion about the nature of the problem.

I'm talking in particular about the state of parties, the condition of the parliament, the operation of executive government, the operation of the media, and the country's political culture. So that's a pretty sweeping agenda.

What we see in Australian politics is the fragmentation of the party system, or loss of faith in the party system. John Howard has used this formula that we used to have a 40/40/20 political system — that is 40% committed to either side of our politics and 20% floating. He now says we have a 30/30/40 system.

This could actually be good. This could lead to a more fruitful democracy, but I certainly think it's a challenge for the system, it's a challenge for political parties, and what we are seeing is fragmentation particularly on the Left, where there is now a divide between the Labor Party and the Greens. And I think that's a permanent change. The conservative side of politics has held together much more successfully. But we did see a very successful performance from Clive Palmer at the last election, taking quite a few votes away from the Coalition.

In the Senate, the parties are responding to this. There is a breakdown of trust. Labor has changed arrangements for the election of the leader that had many unintended consequences, but it's a very significant change. I think one of the consequences is that it will take the party further to the left because it empowers the rank and file in terms of the appointment of the leader. Labor should review its traditional links with the trade union movement, but that remains an embryonic debate with not a lot of progress so far.

I think the parliament clearly is in a most unimpressive condition, filled with all sorts of difficulties, a lot of structural problems. Clearly the Senate is a real difficulty. I think there should be reform of the Senate voting system. I would

highlight the fact that some of the crossbenchers have been elected on an extremely small proportion of the primary vote. I would highlight the fact that section 57 is essentially destroyed for a prime minister in terms of coming to grips with the conflict between the House and Senate, because if you call a double dissolution it only guarantees that you'll have even more minor parties in the Senate. So I think overall the House has been weakened against the Senate.

We've seen fundamental changes in the structure of the media, fragmentation of the media, a much more volatile media environment, the rise of social media, a weakening of the traditional sources of media — newspapers and the television networks. Again this can be seen as potentially a good thing, a flowering of opinion, a flowering of democracy. But I think, frankly, looking at this from the point of view of the politicians trying to muster support for their policies it makes it far more difficult for them. The media operates now in real time and this is a tremendous difficulty for the politicians.

Everything is short-term. Every day is just driven by the immediate issues, by the news coverage that morning, by the breaking news at mid-morning, and it's driven by the cable television, by Sky, by social media. The main task of the politicians today is to avoid making mistakes. Mistake avoidance is absolutely the imperative these days. And we see when a politician gets into trouble, when a political leader gets into trouble, they get into trouble because of a mistake.

This tells us that the power of the negative as a result of technology is simply enormous. Look at the many, many examples: the destruction of the Howard government in terms of the campaign against Work Choices, Tony Abbott's very effective negative campaign against the Carbon Tax, the Labor opposition's effective campaign against the first Hockey-Abbott budget, the campaign of the mining industry against the Mining Tax. There are many examples — these are just some of the main ones. What I am talking about simply is the power of the negative. And it's got to the stage in this country where we can't even debate issues any more. It seems to be impossible to have a debate about industrial relations reform or a debate about the GST, a debate about fundamental changes to Medicare, or more recently — as we saw this week — getting private money into government schools.

In many aspects I think we resemble a stupid country. If you can't actually discuss our options and policy possibilities then I think you are in serious difficulty. So the combination of being run by the polls — and have no doubt that the polls are an insidious influence on what happens in Canberra every time they are published — the combination of the polls and negative politics leads to the virtual perpetual internal crisis of the political parties. We saw this in terms of the Rudd government, the Gillard government, the Abbott government. It's extraordinary that Tony Abbott had been Prime Minister for less than 18 months and there was a movement in the party room last February to depose him. What it indicates is the weakness of the political parties... their susceptibility to panic, to the public opinion polls, and their lack of conviction.

The parties aren't strong enough. They exist to govern; they exist to get onto the treasury benches. If they're exposed in opposition, their weakness is naked. They don't have sufficient ideological strength in terms of beliefs and

commitments to tolerate being in opposition. So the essential rationale of both parties is to do whatever is required to govern. What we now see is the conflict between politics and the policy requirements of the country. We've got a budget deficit, we've got a debt problem, we've got demographic issues coming up. Essentially these issues have got to be addressed but they've got to be addressed in terms of a political system which has trouble debating the issues — let alone debating the answers — and a political system which is resistant to accepting any sort of losers.

I conclude that governing is harder than it's been before and that reform is harder still. I think there are two underlying problems. The system is more difficult, but the quality of leadership has deteriorated.

We see the rise of single issue politics and we see the great dilemma that politicians face. All the time they're asked to rule things out. And they know that if they don't rule things out, the power of the negative campaign in the media against them will be lethal. But if they do rule things out, when they get into government they find that their options are heavily circumscribed and then they run into the problem of breaking promises. We all know about the consequences of that.

I think what we see in Australia today, given the problems we have with the economy, is a new ideological conflict between Liberal and Labor. The actual degree of policy difference, far from being minimised, is actually expanding. It encompasses productivity, competitiveness, tax reform, industrial relations, climate change, spending entitlements, reform of Medicare, pension sustainability, higher education, industry policy. All these areas are the site of very significant differences between both sides.

Well, what should be done? Let me give you a quick seven-point program.

Point one: explain the problem, explain the problem, explain the problem. The politicians are not explaining the problem. This is quite extraordinary. Explaining the problem goes to expectations. They've got to change and mould expectations on the part of the community. You don't go out and tell the community that they've got to live with less; you explain the problem.

We've got to have a more intelligent conversation, and we need politicians who are capable of having that intelligent conversation and mobilising elements of civil society for

that. I should say that I think the public understands at this point in time that the country actually does have some serious problems and they would appreciate some frankness about that.

Point two: I think there's got to be a lot more dialogue and negotiation between stakeholders, and the construction of policy coalitions between various stakeholders. Scott Morrison understands this, and he's done this very well quite recently. Hawke as Prime Minister was a very good example of someone who would listen to the community, and respond to the community, and be seen to be responding. An interesting combination of a leader who at times could be strong, and at times could give significant attention to consensus. We need dialogue between stakeholders and building up coalitions of support for new policy.

Point three: independent analysis. There's no substitute for independent analysis. We need a lot more independent analysis put on the table, which can be the foundation for debate and forming public opinion.

Point four: we need to recognise that most policy answers are going to be compromises. In the environment we are now in, we should not let the perfect be the enemy of the good. We should recognise that progress is going to be based on a whole series of compromises — far better compromises in the right direction than compromises in the wrong direction.

Point five: I think, to use a famous slogan from the 1980s of Hawke and Keating, we need 'growth with equity'. We need growth with equity not just as a rhetorical position but as a genuine policy position in this country. There is no question about this.

Point six: governments must remain strong in the electorate. A government that is weak in the electorate is going to be weak in policy terms. So the government has got to be able to remain strong and use that strength for reform.

Point seven: implementation. We need to rethink the whole process of implementation of policies. Governments are trying to do too much. Implementation is incredibly difficult. You don't change the country simply by passing a law; you have to implement new policies and get the implementation right, and recognise the limits of government in doing that.

Finally I'd say, despite the difficulties I just talked about, our prospects in terms of the Western world are better than most countries.

Paul Kelly is an eminent journalist and analyst of Australia's recent political and economic history.