



Political overview



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Retrospect 2008

As in most parts of the developed world, Australian domestic politics were dominated progressively by global events in 2008. The global financial crisis was the foremost influence but security and climate change also played a significant role. The Rudd government was assisted by these international forces, and the failure of the Coalition to gain traction from them, in a familiar scenario where global crises often favour incumbent governments. Indeed Australian politics was a tale of two fronts in 2008.

Firstly, the opinion polls continually favoured the government as the Coalition went through its leadership change, and then began to pick up until hit by the steamroller of the fiscal crisis. Secondly, this perception of government popularity was countered by poor governance by the Rudd Labor government and its lacklustre performance throughout 2008.

The government was review and process-focused with few concrete results to show; there were token and symbolic gestures; election promises were broken; policy confusion occurred in a range of arenas; presidential-style politics became entrenched; the federation became even more centralised; the politics of envy returned to the Labor agenda; and key interest groups were courted when it was recognised they could play a role in stimulating economic recovery.

By year's end the government had spent almost half the \$22 billion surplus left by the Howard government and looked like spending the rest before too long. It was buffered also by the debt-free budgetary situation it inherited.

Polls and elections

At the national level the Labor government remained comfortably ahead of the Coalition in the polls, especially before the change of Liberal leadership from Brendan Nelson to Malcolm Turnbull. However it suffered in by-elections, apparently because of its ambiguous approach to climate change, the financial situation and especially the housing downturn.

The Labor brand was severely dented by a near-loss of government in the Northern Territory, followed

by the stepping down of Chief Minister Claire Martin. Then there was the loss of government in Western Australia, followed by the ACT election where Labor lost ground and was forced into a power-sharing situation with the Greens. The woes continued throughout the year with significant slips in the polls for the remaining Labor state governments, including those next to face elections (Queensland, South Australia and Tasmania).

Style of governing

Tokenism and symbolism

Signing the Kyoto Protocol and offering an apology to indigenous people proved to be popular gestures at home and brought the government much kudos abroad, but there was no follow-through action to demonstrate their significance. Indigenous policy, including the Northern Territory intervention and a representative assembly for indigenous people, remained in the too-hard basket at year's end.

The 2020 Summit was lauded as a fresh approach to community consultation and produced some innovative thinking, but many who attended the Summit spoke publicly of government manipulation of the selection process for attendance and agenda items. They also expressed concern regarding the debate being funnelled and timed to produce spin opportunities for the government. Similar remarks were made about the Local Government Summit in late 2008. If these summits were meant to emulate those of the early years of the Hawke government, they fell flat by comparison for want of substance.

The government was also accused of show and spin regarding the Prime Minister's international appearances. His concept of an Asia-Pacific community modelled on the European Union was derided as misguided, even among Labor luminaries such as former prime ministers and Asian enthusiasts Bob Hawke and Paul Keating.

Treasurer Wayne Swan's admonishment of the banks for failing to pass on the full successive Reserve Bank interest rate cuts were repetitive and became regarded as empty rhetoric, especially when the government introduced its major assistance package for the banks against a backdrop of continuing high bank executive salaries.

Politics of envy revisited

There were signs throughout 2008 that the politics of envy had returned to Labor's agenda, driven by an ideological bent which Rudd had pledged would

Table 1

State and territory elections 2008: Swings against the ALP

Northern Territory	9 August	-8.2%
Western Australia	6 September	-6.0%
ACT	18 October	-9.5%

Table 2
Opinion polls – Queensland

Primary vote					
Labor	Liberal National Party	The Greens	Family First	Others	
38%	41%	9%	1%	11%	
Two party preferred					
Labor	Non-Labor				
51%	49%				
Better premier					
Anna Bligh	Lawrence Springborg	Uncommitted			
53%	27%	20%			

Source: Newspoll, July – September 2008; *The Australian*.

Table 3
Opinion polls – New South Wales

Primary vote					
Labor	Liberal	Nationals	Liberal/Nationals	The Greens	Others
29%	38%	4%	42%	11%	18%
Two party preferred					
Labor	Liberal/Nationals				
44%	56%				
Better premier					
Nathan Rees	Barry O'Farrell	Uncommitted			
35%	28%	37%			

Source: Newspoll, September – October 2008; *The Australian*.

not be part of their approach to governing. The first budget revealed some evidence of this including the application of new means tests on several programs including housing, grants for solar panels, changes to the threshold for the Medicare levy exemption for private health insurance, the luxury car tax, changes to the pledged tax cut regime to redistribute to lower income earners, the baby bonus, and higher taxes for upper-income earners justified as part of the fiscal crisis package.

Policy confusion

The year saw a surprising number of poorly-designed policies from the government. Almost all had to be refashioned or even withdrawn as a result of poor attention to implementation and unintended consequences, or because of their political unpopularity and failure to consult. They included:

- The computers in schools election pledge, which was not costed properly. Several states were refused to accept the funding unless associated costs were encompassed.

- Fuelwatch, which proved to be a quick gesture to give the appearance of action on fuel prices. It was the subject of conflicting advice to the government from various parts of the bureaucracy, most of it negative. The government went ahead but could not negotiate it through the Senate.
- Communications policy regarding new television channels was not properly thought through and received an antagonistic response from the industry. The policy went back to the drawing board where it remains. Late in the year the government used \$2 billion from the telecommunications regional fund for its infrastructure expenditure, leaving telecommunications policy in further disarray.
- Similarly broadband policy was flawed in design and, by year's end, the major player Telstra was doubting if it would tender. The government has still not justified the very large amount of public funds for this initiative.
- The rescue plan for the Murray–Darling stumbled through 2008, with Victoria placing increasingly costly conditions on its participation and Queensland pleading a special case. The final prescription was a fair way from the stated aim and gave lie to

Table 4
Opinion polls – South Australia

Primary vote						
Labor	Liberal	Greens	Family First	Australian Democrats	Nationals	Others
38%	40%	8%	1%	1%	1%	11%
Two party preferred						
Labor	Liberal					
50%	50%					
Better premier						
Mike Rann	Martin Hamilton-Smith	Uncommitted				
48%	30%	22%				

Source: Newspoll, July – September 2008; *The Australian*.

Table 5
Opinion polls – Victoria

Primary vote					
Labor	Liberal	Nationals	Liberal / Nationals	The Greens	Others
37%	37%	4%	41%	15%	7%
Two party preferred					
Labor	Liberal / Nationals				
51%	49%				
Better premier					
John Brumby	Ted Baillieu	Uncommitted			
45%	27%	28%			

Source: Newspoll, September – October 2008; *The Australian*.

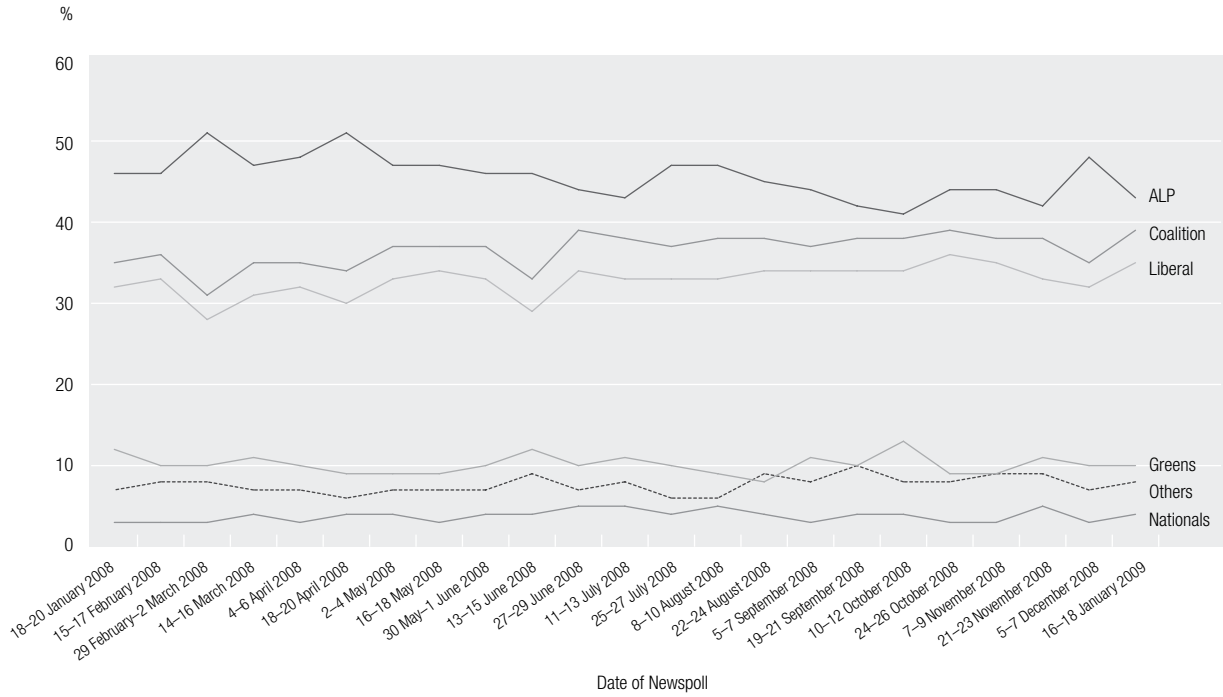
the government's promise to achieve harmony in federal–state relations – another election pledge.

- The alcopops tax proved to be hastily concocted and raised widespread concern in the community. It seemed destined to lead to young people imbibing hard spirits instead. It was widely regarded as a revenue grab by the government.
- The luxury car tax, introduced as a budget measure, ran into opposition from all quarters – industry, environmentalists and family advocates. Clearly not much thought went into this measure, which was reminiscent of past Labor initiatives such as the 'Toorak Tractors' tax attempt. It had to be severely modified to pass the Senate.
- The car industry assistance package drew astonishment in its first iteration when the government gave \$600 million to the world's most financially secure car maker, Toyota, justified as facilitating the production of an environmentally friendly car (which the car maker said it would have built anyway). The second, very large, tranche of car industry support – based to some extent on the Bracks review – was condemned in the media and among economic commentators as an intervention that would achieve

little in terms of essential industry restructuring and could end up being siphoned off to Detroit. It sent a bad signal to other industries who would seek comparable handouts.

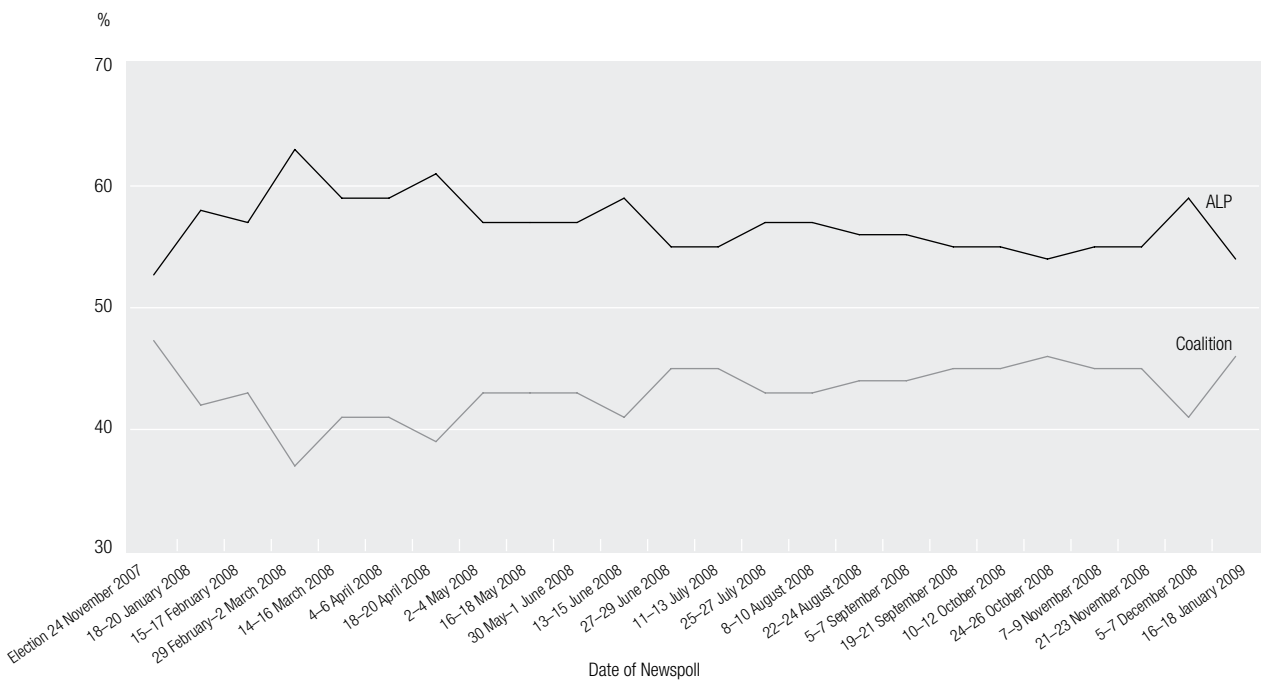
- Pensioners received short shrift from the Rudd government after the Opposition made a strong case for them to receive an increase in their pensions and allowances. Both the Prime Minister and Treasurer admitted pensioners could not really survive on their current payment, yet refused to address the matter until next year. The outcry was forceful but the government did not budge until it rediscovered pensioners and carers as part of its fiscal stimulus package, giving them a handout in the hope that they would spend it as fast as possible.
- Another policy issue was maternity leave which has been proposed in various forms by many bodies, including the Productivity Commission. Despite Julia Gillard's strong endorsement of the concept the government seemed lost about the manner of its implementation and only concerned about the cost, and put it into the too-hard basket.

Figure 1
Voting intention



Source: Newspoll Market Research, January 2008 – January 2009, *The Australian*.

Figure 2
Two party preferred



Source: Newspoll Market Research, January 2008 – January 2009, *The Australian*.

- The ABC Learning Centres collapse saw the government rush to offer funding without justifying why public money should be used and without sound data on company's financial situation. It is unclear what the objectives were, other than a political gesture. As a result the policy design lurched from day to day, rather than waiting for the appraisal of the receivers and better research on the industry. Another government industry intervention and large-scale subsidy was offered without proper research or clear intention.
- The very essence of the government's fiscal stimulus package in response to the global financial crisis was revealed to have been poorly considered, revealing a lack of knowledge about the structure and nature of the industry. Moreover it was never clear whose advice had been requested and received, including the Reserve Bank's. Guaranteeing bank deposits in the manner adopted saw a flight of funds to the sector from other struggling parts of the industry and sent distorting signals. Half of the considerable budget surplus was used, with fingers crossed that Keynesian economics were still alive and well. It did not address the basic problem of the lack of flow of funds around the system.

Major political events and issues

Budget

Much of the budget was unsurprising since Labor had promised to follow the bulk of the Howard government's taxing and spending policies. The luxury car tax was an exception, as was the tax on higher income earners and the introduction of means tests on several programs.

Eyebrows were raised in the run-up to the budget when the idea of cutting carer's allowances and other similar payments was mooted. Several Labor heavyweights went into action and the measures were dropped. However some other cuts were unusual outcomes for a Labor government including the CSIRO's budget and other research programs which have traditionally been Labor priorities. Economists and analysts were disturbed by budget cuts to the Australian Bureau of Statistics, meaning it would no longer be able to collect and publish vital data which is necessary to track economic and social trends. The application of cuts and efficiency dividends were considered inappropriate for these bodies.

The government created more capital funds, on the Costello model, including one for higher education, a measure that was generally welcomed. However uncertainty remained about the Future Fund

when the government would not rule out using it for recurrent expenditure but without an obvious process of evaluation.

Climate change and the Garnaut report

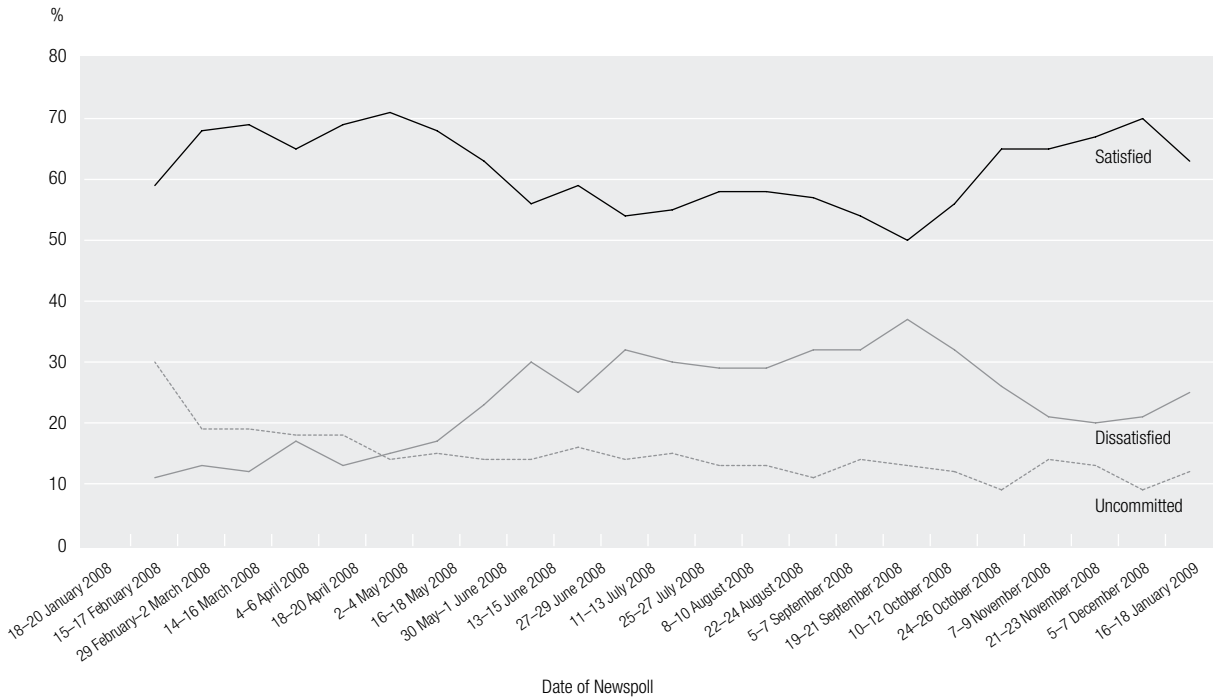
Originally commissioned by the Labor states during the Howard years, Professor Ross Garnaut eventually delivered his interim and then final report. It largely mirrored the climate change scenario and recommendations put forward in the UK and Europe regarding timeframes for emission reductions. It suggested protection for export-oriented industries and synchronisation with international developments to ensure the domestic economy was not penalised.

The government kept its distance from the report for some time, especially regarding timeframes for the emissions trading regime; Rudd and climate change minister Penny Wong had long held that Australia should act to cut emissions irrespective of what other nations were doing. Other contentious issues were protection for export industries and the issuing of permits. Although it was an economist's report it was tempered very much by political reality and the Greens who, by this time, held most of the balance of power in the Senate. The Greens were unhappy with many aspects of the report, particularly the emission reduction targets, time frames and exemptions proposed.

The politics of climate change seem complex at first but they boil down to the familiar equations of who should pay, how much cross-subsidy should occur, to what extent should international forums drive the domestic agenda, which policy instruments are appropriate (eg taxation, permits, regulation, subsidy). The Rudd government seemed predisposed to make heavy industry pay, but not all sectors equally; exporters to be cushioned; private consumers to receive compensation for extra costs coming their way through extra charges on industry; some subsidy/incentives for energy reduction; and a starting date in 2010.

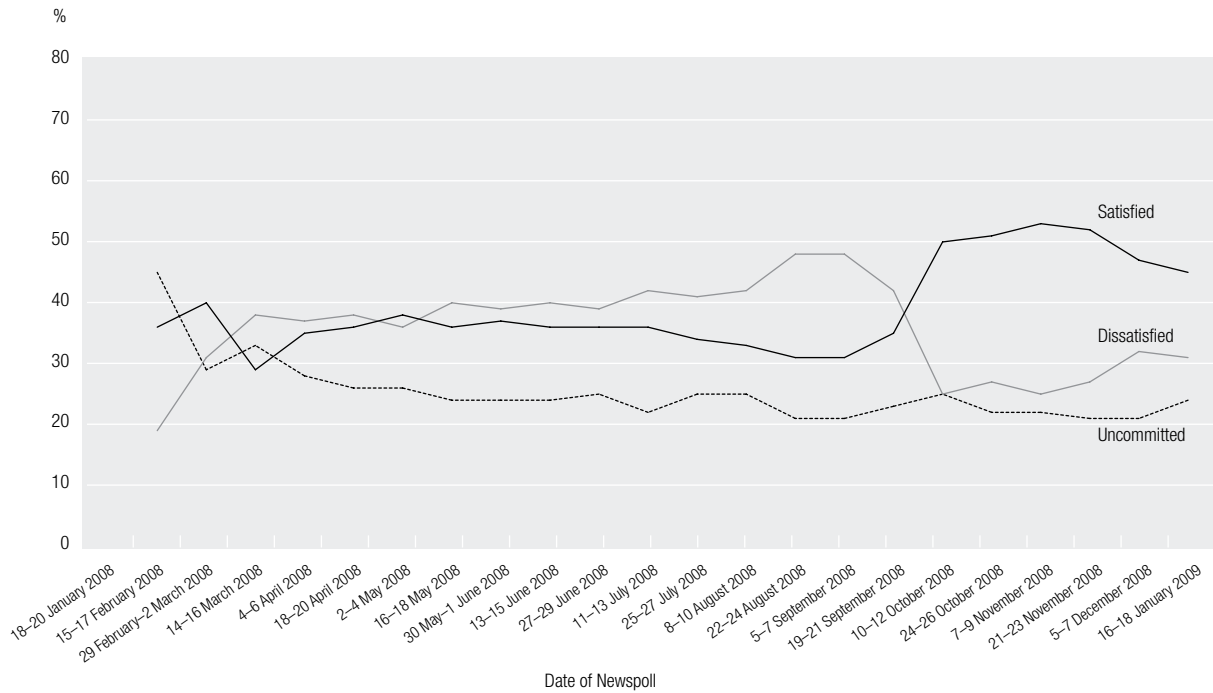
There was concern among environmental groups when the Rudd government released its plan for a carbon pollution reduction scheme in mid-December, featuring only a 5 per cent target reduction in 2000 emissions by 2020. Protests ensued across the nation and the Greens foreshadowed a Senate inquiry into the plan, an idea quickly supported by the Coalition (although for different reasons). The Greens accused the government of misrepresentation over its claims regarding per capita emissions reductions, and said the target would make Australia an international embarrassment – especially in light of recent confirmation that EU countries would pursue a

Figure 3
Satisfaction with the Prime Minister



Source: Newspoll Market Research, January 2008 – January 2009, *The Australian*.

Figure 4
Satisfaction with the Opposition Leader



Source: Newspoll Market Research, January 2008 – January 2009, *The Australian*.

20 per cent reduction target. The government did leave open the possibility of cuts of up to 15 per cent if other countries agreed, but the political damage was done as the government repudiated its election promises. Moreover Australia would not be able to lecture the rest of the world on the urgency of addressing climate change with a weak domestic policy.

Industry feigned shock at even a 5 per cent reduction but clearly was pleased the figure was not higher. The real political damage was done when Professor Garnaut, at year's end, criticised the government for setting too-low an emissions target. He was also unhappy about the government's intention to issue free permits for polluters which would be seen internationally as a form of protection and set a very bad example. Commenting particularly about the proposed \$3.9 billion compensation for electricity generators, Professor Garnaut said the climate change policy "lacks a public policy purpose" and is likely to create a large risk to public finances. Opposition shadow minister for the environment Greg Hunt described Rudd as a "climate fraud", and the Opposition is commissioning its own independent review of the policy. When the unions said Garnaut did not realise that the climate change policy was "all about jobs", the Rudd government's motives seem to have been revealed.

The government's accompanying pledge of \$6 billion compensation for pensioners and low income earners was generally welcomed. So too was the target of 20 per cent of all energy to be from renewable sources by 2020, except from the Productivity Commission which considers this unrealistic.

Global financial crisis

The government's response to the global credit crunch, arising from the collapse of the sub-prime mortgage market in the United States, was problematic. At least the government acted swiftly and gained approval from the electorate. However the speed of the response saw some significant policy mistakes, including:

- protecting banks but not other financial institutions
- hasty plans for infrastructure spending without evaluation of whether these measures would create employment
- populist measures for grants to pensioners, welfare recipients and others without assurance as to whether these grants would actually be spent and stimulate the economy
- some disconnect between fiscal and monetary policy as the government's forecasts and analysis seemed at times contrary to the Reserve Bank's, and it was unclear to what extent the government

was including the Reserve Bank in its policy advisory tent.

The government spent half the sizeable budget surplus, and Rudd said he saw nothing wrong in spending the rest and going into debt – without the release of information on the aims and likely effectiveness of these measures, especially the need to get the flow of credit moving between the banks and financial institutions and revitalise the housing market. In fact the speed of the response and constant talk of the crisis seemed to worsen the situation – consumer spending slowed and unemployment began to rise. The public sat tight and showed little real response to the policy measures as they applauded the government through the opinion polls for acting swiftly and decisively. When the government paid substantial cash grants to pensioners and welfare recipients, typically of the order of \$1400 at the end of the year, its popularity soared. Rudd was looking like 'Howard-Lite' again.

COAG

The government set out to make the Council of Australian Governments (COAG) its engine room of microeconomic reform, modelled on the approach of the early years of the Hawke government. Rudd asserted he would end the 'blame game' in the federation, particularly as all the participants would be Labor governments. COAG did meet more frequently than before and worked through myriad committees and working groups. The results were mixed. A new foundation agreement on intergovernmental finance was struck giving states and territories greater certainty of funding. Most significantly, specific purpose grants to the states were reduced drastically in number through broad-banding and outcome performance measures were introduced.

These aspects were welcomed by the states and territories. It is still too early to tell whether this has had any measurable impact, but it has given the Commonwealth government the upper hand. The states and territories are now mainly service deliverers rather than policy partners in the federation. Their sovereignty is diminished as they perform to the tune of the Commonwealth and are seen as an extension of the national government to deliver its election pledges. The territories especially are at a significant scale and capacity disadvantage in the new bidding and benchmarking environment.

Some useful and welcome reduction of industry regulation was achieved, and other policies were harmonised – many affecting business. However these were mainly in narrow areas. That success was marred by failures in big-ticket policy items, such as

Box 1**COAG highlights****2008 Meeting dates**

- 26 March 2008
- 3 July 2008
- 2 October 2008
- 29 November 2008

Major decisions**(i) Intergovernmental Agreement on Federal Financial Relations****(ii) Specific Purpose Payments:**

\$7.1 billion in funding has been allocated to the states over five years in five new national Specific Purpose Payments (SPPs), including:

- \$60.5 billion in a National Healthcare SPP
- \$18 billion in a National Schools SPP
- \$6.7 billion in a National Skills and Workforce Development SPP
- \$5.3 billion in a National Disabilities Services SPP
- \$6.2 billion in a National Affordable Housing SPP.

(iii) National Partnerships Payments:

COAG previously agreed to a new form of payment – National Partnership (NP) payments – to fund specific projects and to facilitate and/or reward States that deliver on nationally significant reforms. The first wave of National Partnerships will begin in 2009, including:

- Hospitals and Health Workforce Reform
- Preventative Health
- Taking Pressure off Public Hospitals
- Smarter Schools – Quality Teaching
- Smarter Schools – Low SES School Communities
- Smarter Schools – Literacy and Numeracy
- Productivity Places Program
- Fee Waiver for Childcare Places
- Indigenous Remote Service Delivery
- Indigenous Economic Development
- Remote Indigenous Housing
- Indigenous Health
- Social Housing
- Homelessness
- Seamless National Economy.

Victoria refusing to cooperate on the Murray–Darling rescue plan. New South Wales and other states effectively sank the free computers for schools program by refusing to accept the funding unless all ancillary costs were met. Even when some funding was found for this they refused to accept a tranche.

These two issues alone resulted in more than a billion dollars of extra expenditure; the elimination of the blame game came at a considerable price. States also resisted uncertain at year's end whether all states would go along completely with the new industrial relations regime. And Western Australia elected a coalition government which, although immediately hosting a COAG meeting in Perth, soon diverged from a number of COAG directions, especially on policies affecting the mining industry.

Under the auspices of COAG and as part of its fiscal rescue approach, the government convened a local government summit late in 2008. Once again in the history of this federation a national government had turned to local government to deliver fast employment-generating projects and infrastructure provision. Local government welcomed the prospect which included guaranteed funding from the Commonwealth and the carrot of constitutional recognition. However the substance of the outcome of this summit is yet to be seen.

Health

The health agreement – the largest of Australia's inter-governmental agreements – remained unresolved at year's end with disputes over funding for the states and the election promise to take over hospitals from the states if they did not perform. Meanwhile the government's proposed new model for community clinics stalled and met considerable opposition from the Australian Medical Association because of a diminished role for GPs. Week by week serious incidents occurred in the nation's hospitals and the shortages of doctors and nurses became apparent. The Australian health system was not a pretty sight in 2008.

Education

The situation was similar in education. The government drew flak, even from its own side, when it passed legislation to continue funding private schools. Labor members and unions were upset at the obvious underfunding of public schools, the unions branding the government's schools funding for the next four years as "corrupt". Meanwhile the private schools, while welcoming the continued funding, objected to the conditions imposed upon them, especially the

Other COAG decisions	March 2008	July 2008	October 2008
Binge Drinking	✓		✓
Business Regulation and Competition	✓	✓	✓
Carbon Capture and Storage			✓
Child Protection		✓	✓
Climate Change	✓	✓	✓
COAG Reform Council	✓	✓	
Commonwealth/State Financial Framework		✓	✓
Company Policy – Competitive Neutrality Report	✓		
Education	✓	✓	
Energy Policy			✓
Food Regulation		✓	
Gambling	✓	✓	
Gene Technology		✓	
Global Financial Market Conditions			✓
Health, Ageing and Community Services	✓	✓	
Housing	✓	✓	
Indigenous Issues	✓	✓	
Indigenous Early Childhood Development National Partnership Agreement			✓
Infrastructure	✓		✓
Inter-jurisdictional Exchange of Criminal History Information for People Working With Children			✓
Ministerial Councils	✓		
Murray–Darling Basin			✓
Mutual Recognition	✓		
National Curriculum Board			✓
Productivity Agenda		✓	
Reform of Roles and Responsibilities in Community Mental Health, Aged Care and Disability Services			✓
Security and Emergency Management Arrangements			✓
Security & Emergency Management Arrangements (Recognition of Private Security Ind/and Manpower (guarding) Sector)		✓	
Soccer World Cup	✓		
Water Resources Policy and Reform Report	✓	✓	
Reviews – National Numeracy Review		✓	



requirement to reveal their other sources of funding. The curriculum issue also arose with the government demanding all schools give blanket assurance they would teach the new national curriculum, even though it has not yet been formulated. This was a major problem during the year with considerable dissatisfaction about the approach adopted by Professor Barry McGaw, who is in charge of the national curriculum process, and particularly the choice of consultants to aid in the design.

Higher education policy was a work in progress. Students were suddenly hit with a new \$250 student service fee. Universities were precluded from offering full-fee places and, despite promises of extra public funding, it was unclear what the impact would be. The Bradley Report into higher education was delivered very late in 2008. Its centrepiece was a recommendation for a voucher system, whereby students would receive funding and choose which university they would enrol in and spend the funds (a proposal which delighted the Coalition). Universities would be free to enrol as many students as they wished, but tougher accreditation measures were foreshadowed. The establishment of one national regional university was mooted, together with requirements for universities to conduct research in fields in which they taught.

National targets for the proportion of young people completing degrees were to be set and special attention paid to lower socio-economic groups. Vocational education and training has fared better under the Rudd government, and Bradley recommended the Commonwealth government make a complete take-over of the sector. However fundamental problems of the sector were not addressed, including the public-private mix and governance of the TAFE system. The Howard government's national technical colleges have been abolished; no one seemed to lament their passing, probably because they were an ill-considered initiative. Julia Gillard promised to respond to the Bradley report by March 2009.

During the year the government announced some changes to the role of CRCs (Cooperative Research Centres), including a "public good" social role, but few details have emerged.

The unions in particular were unhappy with most of the government's actions throughout 2008. The comment was made in several quarters that Julia Gillard was not on top of her education responsibilities, partly because her portfolio is too large and workplace relations will always be demanding. She also didn't make productive use of her assistant ministers.

Foreign affairs and immigration

The government's decision to seek a seat on the UN Security Council was a major factor in the frenetic pace of the Prime Minister's overseas travel during 2008, including an address to the UN Assembly. The government's stance is a sensible one given a middle-ranking power can contribute to the debate and action on security, diplomatic and financial matters in an effective way. However the bid for the UN seat has been costed in excess of \$30 million and many commentators questioned whether this expenditure can be justified. Australia will soon be pulling troops out of Iraq, as per the election promise, and may transfer some specialist staff to Afghanistan, although there is no commitment to increase the contingent there.

The government warmly welcomed the US presidential election victory of Democrat Barack Obama, with whom the Australian Labor government has much more affinity than it had with the previous administration.

The Asia-Pacific region was still the major focus of diplomatic efforts but Rudd's proposal for an EU-style regional body wasn't well received by Asian leaders. China was a particular focus during the year and the Prime Minister was accused of snubbing our major trading partner, Japan. The Pacific continued to pose

Box 2**Australian National Parliament**

Current party representation in the House of Representatives and the Senate for the 42nd Parliament of Australia

House Of Representatives		Senate	
Australian Labor Party	83	Australian Labor Party	32
Liberal/National Coalition	64	Liberal/National Coalition	37
Independent	3	The Greens	5
		Family First	1
		Independents	1
Total	150		76

unique problems and tested Australian diplomacy during the year, but the government did close down the 'Pacific Solution' asylum detention centre, and held out the prospect of seasonal visas for workers from the Pacific. However the previous government's tough line on boat asylum seekers was maintained when the number of boats approaching our shores increased and, to everyone's surprise (including most Labor members) the government decided to reopen the Christmas Island centre which it had so vehemently criticised in Opposition. Some relaxation of special skill visa arrangements was flagged during the year with strong pressure from business and the acquiescence of the unions. Industry pleaded with the government not to cut the migrant intake level, and this seemed a prospect at year's end as unemployment levels crept up.

The Senate

The political scenario in Australia changed appreciably after 1 July 2008 when the new senators began their terms. The Coalition no longer held the balance of power in the Senate in its own right and suddenly the Greens, Family First's Steve Fielding and independent Nick Xenophon gained prominence as they held the real balance of power. The government was caught flatfooted by this turn of events because it had done very little courting of these players, preferring to focus on the Coalition and even threaten a double dissolution if its budget and other measures did not pass through the upper house.

The new situation in the Senate saw some budget measures stymied (taxes on alcopops and luxury cars,

exemption levels for the Medicare rebate, Fuelwatch schools funding, climate change, and elements of the fiscal stimulus package especially in relation to housing).

A new day had arrived in Australian politics and Kevin Rudd and his ministers had to learn the same lessons as the Howard government in piloting policy and legislation through a minefield.

Governance

The appointment to the High Court in 2008 of Justices Robert French and Virginia Bell, to replace Chief Justice Murray Gleeson and Justice Michael Kirby were widely welcomed and considered destined not to provide too reformist or activist a bench. The appointment of the new Governor-General Quentin Bryce appeared more controversial, especially when she foreshadowed an intention to speak out more than her predecessors on current issues and take a higher profile in community debates, which is not a familiar pattern of behaviour for the Australian representative of the head of state.

The government produced a welcome code of conduct for ministers and their offices, although the media pointed to some holes in it which have caught some ministerial staffers. Promises were made to reform Freedom of Information laws, which have been abused seriously for decades, but nothing was introduced by year's end.

The Australian regulators were again at the fore of political debate, especially the ACCC and its Chair who seem destined to be forever in the spotlight. The global financial crisis had drawn widespread

attention to the role of regulatory regimes and, although Australia stands tall in this aspect of governance, some alteration was needed to the ambit of the fiscal regulators. The aspect which caused greatest concern was the path of advice to government from regulators and how this should be blended with advice from the bureaucracy. In this regard, the role of the Reserve Bank in giving advice outside its strict monetary policy brief became an issue, as did the ACCC's advice on various matters. This was exacerbated by the government's occasional refusal to release the advice it received.

Considerable concern was expressed when the government, as part of its cutbacks and efficiency dividend approach, applied the same medicine to the watchdogs of governance – especially the Auditor-General and the Ombudsman—since these are both officers of the Parliament rather than government.

However the most prominent governance issue in 2008 arose in relation to the familiar topic of the politicisation of the public service. Rudd had commendably not sought to purge the upper ranks of the service on coming to government, although he did cut their budgets and create significant capacity pressures through the plethora of reviews, policy papers and media briefings. Treasury Secretary Ken Henry bore the brunt of the accusation of public service politicisation as a result of his high profile in the fiscal crisis measures and the taxation review which he heads. However he mounted a spirited defence of the public service in a rare appearance for a public servant at the National Press Club. Nonetheless it would be useful for the government to clarify its channels of advice for the future, especially as the pace of policy reviews is putting considerable pressure on, and reportedly denting the morale of, the public service.

Rudd continued the presidential style of government Australia has witnessed since the days of Malcolm Fraser, but appearing to be more centralised and controlling than previous prime ministers. His office gained power over the year as he intervened in ministers' actions and statements.

Constitutional issues arising during the year included the abolition of the states and the establishment of a republic (both strongly favoured by the majority of participants at the 2020 Summit), a Bill of Rights, and recognition in the constitution for local government, which local governments want to be expanded to encompass a guarantee of funding. Only the local government amendment is likely to figure at the next election; the government being too wary of defeat to propose the other measures even if it supports each of them.

Taxation and infrastructure

The year ended with considerable uncertainty on these two issues which are of major concern to business. The Henry Review of the taxation system has industry worried because its terms of reference are not comprehensive, particularly as the GST is excluded from its purview. On infrastructure the government seems to be scrambling and raiding resources from myriad sources including the telecommunications fund, the Future Fund, the recurrent component of the budget, and the special capital funds set aside by the Howard government and the Rudd government itself. The true role of Infrastructure Australia has not been clarified. Criteria for the distribution of its funds, the evaluation methodology of the costs and benefits of each project, and monitoring and reporting procedures, are in urgent need of clarification. The situation was not helped in late December when the government twice gave false starts on the announcement of likely approval for a list of projects, both of which were then withdrawn hastily.

The public–private mix of infrastructure funding and delivery is in a quandary across the nation, with the Rudd government yet to make a firm pronouncement and state governments taking contrary positions. This policy is in urgent need of attention, especially given the large amount of funding that will be pumped into infrastructure as part of the fiscal stimulus package.

The politics of both taxation and infrastructure have long been intense in Australia and the latter half of 2008 saw special pleading from state governments, industry and community groups for special consideration. These will be two of the most prominent issues of 2009 for both business and the general public.

Polling high at Christmas

The government finished 2008 with very high ratings in the polls. The substantial one-off grants to pensioners and welfare recipients certainly helped. The Coalition, by contrast, finished the year in disarray. As leader Malcolm Turnbull lifted their performance considerably but admitted the need for more consultation with his backbench and greater unity on issues where the government had tried to drive a wedge between the Liberals and Nationals. There was no sign of the Coalition parties merging at the national level, as occurred in Queensland during 2008 and has been working effectively in the Northern Territory for some time.

Box 3**Developments to watch in 2009**

- Barack Obama as new President of the United States
- General elections in India, Germany, the EU
- Presidential elections in Indonesia, South Africa, Iran, Afghanistan
- Continued response to global financial crisis
- Government response to Bradley Report on higher education
- COAG – four meetings in 2009
- The federal budget
- Senate debates on budget and climate change/emissions reductions
- Reserve Bank interest rate movements
- Fair Pay Commission criteria for minimum wage
- Indigenous policy and NT intervention response
- Henry Taxation review report
- National school curriculum progress report
- Hospitals/health funding agreement
- Government response on maternity leave
- Industrial relations policy finalised
- Queensland election due by September
- Australian bid for UN Security Council seat continues
- APEC Summit October
- Copenhagen UN Summit on climate change December
- Debate on constitutional recognition for local government and the bill of rights

Prospect 2009

2009 may well be the International Year of Astronomy but not even Galileo could hope to navigate with precision the path of global political events this year which, according to most accounts, is going to be dominated by:

- the continued international response to the global credit crisis
- a prolonged debate about appropriate responses to climate change culminating in the Copenhagen Summit at the end of the year
- ongoing and possibly even more intensive terrorism activity.

The message is clear – Australian domestic politics is going to be driven to a large extent by international trends and events this year.

In relation to the global credit crisis the consequences are very significant. Most commentators are predicting that almost all of the developed world will be in recession in 2009 and global growth will slow appreciably even in China and India. The car and construction industries will be hard hit. In many industry sectors bankruptcies and mergers will be familiar occurrences. Governments are spending mega-amounts of public funds and some are incurring substantial debt to attempt to stimulate their economies; many are cutting taxes. This will be accompanied by an escalating global terror threat that will preclude reduction of spending on security. Global pressure from environmentalists will insist that, financial crisis notwithstanding, governments must impose cost burdens on industry and consumers to reduce carbon emissions, and provide incentives for renewable energy and other energy saving measures.

All of these developments presage greater government intervention and regulation in the global and domestic economies, in many ways unprecedented since the Great Depression and the first and second world wars. This is completely counter to the worldwide trend towards deregulation and privatisation which, for the past three decades, has underpinned the capitalist systems of the developed world and been advocated by the major international financial institutions. These market-based policies have also been accepted, even embraced, by the modern Labor party in Australia, especially since the first Hawke government in 1983. Now, with the solutions to the global crisis resulting in so much new government intervention and increased government ownership, the strong temptation exists for parties of the left to revert to socialism as their dominant creed.

Just about all of these factors will affect Australian politics this year. The government has already spent half the budget surplus it inherited and has signalled it is prepared to go into debt if necessary. Australia's regulatory regimes have stood up to the challenge much better than those in the US and elsewhere in the developed world, but the power and scope of financial, industry and consumer regulators seems set to tighten and increase.

High-wire juggling act

The government faces a political juggling act of immense proportions in 2009. Balancing the international trends themselves is a nightmare since any action on climate change involves extra burdens on the economy and public finance, through regulation of industry and compensation of consumers, when the economy is still reeling from the global financial crisis. Despite the rhetoric it is inconceivable that climate change and carbon reduction can be addressed in a totally revenue-neutral way.

Then, after the bills for the fiscal stimulus package have been paid and future contingencies hedged against, the cupboard will be bare in 2009. The Rudd government will most likely be unable to deliver on its election promises, even if the budget goes into deficit. It is far from certain that China, India and other formerly fast-growing emerging economies will sustain the commodities boom that has underpinned the Australian economy and provided corporate profits which have fed past budget surpluses.

These factors will give the government excuses for why it cannot deliver on its promises and the outcomes of the reviews it has commissioned, many of which will report in 2009. Indeed this scenario had

surfaced in the latter part of 2008 at COAG meetings where the states and territories were told their wish lists for funding and former Commonwealth commitments could no longer be guaranteed because of the global crisis. This won't help the Queensland government as it faces falling poll results and a state election by September 2009, with a similar situation for the Tasmania and South Australian governments due to face their voters in March 2010.

The key question is: how long will the Australian electorate accept the global credit crisis as the cause of the deterioration in their standard of living, housing affordability and availability, as well as sub-standard basic government services such as health, all accompanied by rising levels of unemployment? Their patience will surely run out well before the next national election due in late 2010. It is in this context that the key political domestic issues of 2009 need to be considered.

Political issues

The economy and the welfare system

The economy and the welfare system will dominate the politics of 2009 even more than usual. In apportioning the burden of attempts at economic recovery, the government appears to be returning to redistributive policies of days gone by as higher income earners and business bear the brunt. (The government now regards a family with an annual income of more than \$150,000 as high earners, despite the opinion during the election campaign that it would be \$250,000.)

The surpluses inherited from the Howard government seem certain to be spent in 2009, and there is a real possibility that debt will appear on the Commonwealth's budget ledger for the first time in a while, especially as unemployment grows and if a housing recovery ceases to occur. The marginal electorates are particularly susceptible to these trends. As the economic situation worsens more attention needs to be focused on the taxation-welfare interface. Australia's safety nets are still not trampolines capable of bouncing the unfortunate back into a productive life, and now the Rudd government has weakened the mutual obligation approach in the Howard government's welfare to work tests, this area needs to be revisited. It was an area Labor kept under close surveillance while in Opposition and they need to return to it now.

A new US president

Barack Obama took up office as President of the United States early in 2009 and his stance will have some bearing on Australian politics. The withdrawal of troops from Iraq will be welcomed by the majority of the Australian electorate. Less welcome may be Obama's protectionist stance on trade negotiations which will have a negative effect on Australia's hopes for a final revival of the Doha round of trade liberalisation to aid Australian commodity exports. And of course if Obama cannot find a solution to revive the American economy, Australia, like so many other nations, will suffer.

It is highly likely that the Rudd government will try to seek an early alliance with the Obama administration to pursue its foreign policy goals, including engagement with the Asia-Pacific region and its ambition for a seat on the UN Security Council. However there are dangers in too-close a partnership if the American administration stumbles in its own foreign policy, especially regarding the Middle East.

Tax policy

Taxation reform will be in the headlines for most of the year flowing from the Henry Review of Australia's tax system, headed by Treasury Secretary Ken Henry. Although hampered by its limited terms of reference, the review should result in some rearrangement of the taxation regime. It has to deal with special pleading from the states and sectors of the economy, but if Henry remains true to form he will produce a rational set of recommendations based on economic criteria and it will be up to the government to deal with the ensuing politics.

Henry has the previous comparative study commissioned by former Treasurer Peter Costello to use as a base, which reveals Australia's relatively high corporate taxation and somewhat steep personal taxation scales and cut-off levels. But it will be a brave government to modify these in the midst of a global financial crisis, especially if they involve favouring the big end of town. What seems more likely is a rationalisation of Australia's taxes based on recent research by the Productivity Commission and PricewaterhouseCoopers that showed some 60 separate taxes levied by the three levels of government.

Australian business and industry want Henry to consider a wider agenda of taxation reform including public services, GST, reliance on rulings from the Australian Taxation Office, reform of intergovernmental aspects of taxation, and administration of the fringe benefits tax.

Infrastructure

Infrastructure policy still suffers from uncertainty regarding priorities and processes for delivery. There is little process or rigour as various trust funds and other sources are used in the hope of stimulating economic recovery. The role of public-private partnerships, whose use by the states and territories varies like a chequerboard across the nation, is unclear. The foreshadowed role of local government has not been made plain.

More concerning, because of the lack of clear criteria and roles of Infrastructure Australia and COAG, is the suspicion of pork-barrelling in the infrastructure project selection and funding process – which has long been the number two Australian sport just behind betting on the Melbourne Cup. This issue assumes vital importance given the mega-funding set to flow in 2009 and the pleas on the table for special consideration, including those from the states. The opposition is wary of infrastructure funding being shaped to bail out Labor state governments.

Climate change – the biggest issue of 2009

There can be no doubt that the biggest political issue of 2009 is going to be climate change. Further clarification and modification of the government's approach to climate change and carbon emissions reduction and trading will occur as the year progresses. It defies belief that the government can retain its late 2008 policy of only a 5 per cent reduction in emissions by 2020. This rebuts much of the expert Stern and Garnaut scenarios and recommendations and alienates the Greens whose support is vital in the Senate this year. This announced policy must be considered a political ambit claim subject to negotiation as the year unfolds, especially if the economy recovers.

Of course any increase in the target now will alienate business and the unions to some extent, but since the target is so far below the Europe Union's (and possibly that which will be flagged by the United States), the government will have some political room to move. If it doesn't, Australia is going to be embarrassed in Copenhagen at the UN Climate Change Summit in November. To have signed the Kyoto protocol with such an international flourish on coming to office but then, only 12 months later, to be targeting a 5 per cent reduction in emissions by 2020, will be seen as very hypocritical and jeopardise the chances of garnering international support for the bid for a seat on the UN Security Council. It will also weaken Australia's efforts at the October APEC Summit to influence the giant emerging economies to take action on climate change. An Australian policy



position of a 5 per cent reduction doesn't send a message of serious concern for the planet to some of the world's biggest future polluters.

Water

Water policy fell off the political agenda by the end of 2008, possibly because of the dominance of climate change debate and some welcome downpours in many parts of the continent. However it remains one of the great challenges. In 2008 the Productivity Commission castigated the states and territories for failing to honour their pledge, of 15 years ago, to deregulate their water markets. Water minister Penny Wong's final take on the Murray–Darling in 2008 read more like a work in progress and gave little certainty that the problems in the basin would be addressed effectively.

Then in late 2008 a Senate report recommended strongly against the proposed Traveston Dam in south-east Queensland, one of Premier Bligh's major projects, yet Labor senators continued to vote in favour of it. In South Australia Premier Rann seemed to be suffering in the polls because of his perceived weak action to save Adelaide's precarious water supply, and water remained an issue in Victoria and Western Australia.

In all it was a very messy response to a critical issue across the nation, and one that will produce much political angst for years to come.

COAG

COAG will continue to be portrayed as the engine room of the ship of state in the waters of microeconomic reform. A great deal remains on the agenda from 2008 including occupational health and safety, and workers compensation. Although COAG has addressed many matters of federal–state and interstate policies and legislation, and has reduced some overlap and duplication, the big ticket aspects of the malfunctioning federation still need to be addressed. These include the roles and responsibilities of the different levels of government in major arenas such as education, health, environment, transport and infrastructure.

There has been little work on issues such as the linkage between the supply of doctors and nurses (a national responsibility) and the running of the hospital and health system (a state responsibility). Similarly the impact of immigration levels (national) on housing (state), or the so-called 'bed blocker' problem which arises in underfunding of aged care places (national) and overstretched hospital places (joint). Many more examples could be listed. There is no sign COAG will address these fundamental flaws but will keep tinkering at the margins. Most of them would require constitutional amendments to be properly addressed, not to mention a new tax-sharing system between the three levels of government.

Health and hospitals

Nowhere is the urgency of reform of federal–state relations more urgent than in the hospital and health system. It was a very incremental approach from health minister Nicola Roxon in 2008, resulting in criticism from the states when she reduced promised funding levels. The medical and nursing professions were also far from happy.

The blame game was certainly not eliminated in the health arena. The Prime Minister's threat/promise to take over the hospital system is constantly challenged as almost every week produces a horrifying incident in a hospital somewhere in Australia and waiting lists continue to grow. The Commonwealth seems impervious to the plight of the sick and elderly. The new intergovernmental health and hospitals agreement has yet to be finalised but it shows no sign of addressing these basic flaws. A post-election study of the 2007 poll has again revealed that health is always one of the top three issues that motivate voters in casting their ballot.

Education and training

In the same category comes education and training, the subject of the much vaunted 'education revolution' which is yet to appear save for the troubled computers in schools scheme, a new levy on tertiary students, and a continuation of status quo models of funding for private schools. Even Rupert Murdoch launched an attack on the education system as the principal topic in his 2008 Boyer lectures.

The maligned approach to development of the national curriculum for schools will continue, but at its present slow progress it is unlikely to be ready in 2009. This is a topic which, by definition, cannot please everybody since we all went to school and so we are all experts in education. Least pleased will be the states and territories that seem still not fully committed to it. It is most likely that education minister Julia Gillard will allow much opting out from the national curriculum, and it remains to be seen the tough rhetoric translates into real action on performance and reporting measures, especially in the light of certain union and teacher resistance.

The government promised to respond to the Bradley report on higher education which has recommended, *inter alia*, a switch to a voucher system, changes to funding of universities, and creation of one national university for the regions. Voucher systems always split Labor ranks, and anything that proposes diminishing regional prominence will incense Nationals such as Barnaby Joyce and make Labor members in regional electorates cringe.

Bradley also suggested a complete Commonwealth takeover of the vocational and training system, which makes sense from the point of view of workforce and employment policy, and will be welcomed by industry. However the states and territories will fight this proposal as they currently fund two-thirds of the system and it looms large in their political weaponry against employment, regional development and industrial relations.

Of equal importance is the urgent reform required in the governance of the TAFE systems. The TAFE colleges are run by the states as public service departments rather than true professional bodies, and they are ridden with antiquated industrial relations policies and practices, yet no one is targeting this.

Workplace relations

There are a good many workplace issues to be resolved in 2009. The government's industrial relations policy is still incomplete, with only about half of its components in place. The role of the institutions involved in the determination of wages and conditions is still unclear. Requisite state powers have not yet been transferred in this area or in occupational health and safety.

The government has not started to address the matter of maternity leave, despite agreeing it is important. It is unclear whether they see it as a human rights matter, an economic matter, a family matter, or part of the work/life balance preoccupation. The key issues are justification for maternity leave, who should pay for it (government/employers/individuals), and whether it is in the form of payment or deferred tax breaks in the manner the HECS scheme. This is one area where the implications of the global financial crisis loom large.

Early in 2009 the Fair Pay Commission was signalling it might take job security into account as an element in determining the minimum wage, a prospect attacked by the unions.

Indigenous affairs

The indigenous communities are still awaiting a full response to Labor's touted rejection of the much of the previous government's policy framework. Indigenous affairs minister Jenny Macklin gave confusing signals throughout 2008 on components of the intervention in the Northern Territory regarding welfare payments, alcohol prohibitions, public access to indigenous lands and whether a separate representative body would be established for indigenous peoples. The government will need to clarify a holistic approach this year.

“The fundamental question is whether the Coalition can exploit this coming year of complexities for the government.”



The main battle ground in 2009 will be over the environment. Environment minister Peter Garrett has again deferred the decision over the pulp mill in Tasmania, which will be the curtain raiser for the big climate change debate which will go on all year. The government badly needs the support of the Greens so expect some constant shuffling of its positions all year long. The bid for a seat on the UN Security Council will also require some changes to government policy positions on climate change, immigration, indigenous policy and support for UN specialised agencies.

Constitutional change?

Veteran minister John Faulkner has foreshadowed a move for fixed four year terms of parliament and there has been a reasonably strong head of steam building up for an entrenched Bill of Rights. The government has appointed a consultative body to sound out opinion on a Bill of Rights which has a skewed membership in favour of such a proposal, again revealing a policy process weakness similar to the 2020 Summit. However it is doubtful the government would risk the next election by mixing in such controversial topics with election issues. It may be prepared to countenance a referendum, at the 2010–11 election, on constitutional recognition for local government. Such a proposal would probably gain strong support from Australia's 600 local governments and boost Labor's popularity at the election. A plebiscite (not a referendum) on a republic is about all the attention this controversial topic will receive before the next election.

The sentinel Senate

The role of the Senate will be crucial in 2009. The Rudd government will be beholden to the Greens, Family First and independent Nick Xenophon to steer through its response to the global financial crisis, the outcomes of its myriad reviews, any unusual budgetary measures it feels necessary in this atypical year, the response to the Henry Review of taxation, and particularly its continued iterations of policy on climate change and workplace relations – not to mention any key policies emanating from COAG on health, education, gambling and indigenous affairs.

Ministers will need to lift their game considerably and offer continuous briefings to these power brokers in the upper house. If policies are not green and family friendly, they are in trouble. The coalition will milk this situation for all it is worth.

The second term imperative

All newly-elected governments are driven by the desire for a second term, if only to prove that their win was not a fluke. Some, like the Whitlam government, rush the agenda for fear of not having a second chance. Rudd, despite declaring himself to be in the Whitlam mould, seems to have moved in the opposite direction, flagging many issues as having to wait until a second term and setting deadlines accordingly. The global financial crisis has constrained this further, although it has at the same time provided an excuse for delay.

The states and territories will not be so patient, especially with support for state Labor governments declining markedly in 2008. The Queensland election is due by September this year and the Labor government is looking vulnerable. Although it needs a swing of 7.6 per cent and the loss of 18 seats to lose, that isn't impossible given the lift in the opinion polls for the newly amalgamated coalition parties. The South Australian and Tasmanian elections are due by March 2010 and they are feeling vulnerable for similar reasons. New South Wales is not due for an election until March 2011 but the government is in a desperate situation and needs all the help it can get from its national counterparts. So policy-wise, what suits the Prime Minister will not suit his state counterparts.

The second term imperative also brings into focus Rudd's style of governing which is emulating the pattern he displayed as key adviser to the Goss government, and which arguably played a big part in the defeat of that government. He has been cautioned publicly by two former successful Labor prime ministers to exert less control over his ministers and to stop centralising policy making. This is an unsustainable situation that also undermines the ability of ministers and bureaucrats to gain expertise. He is unpopular with the public service and their unions. His reliance on spin over substance has been pinpointed by the media who are also impatient. In a first anniversary of government speech Rudd claimed he had introduced a new style of consultative government through the 2020 Summit, the local government summit and community cabinet meetings, but this claim fell flat in the media who viewed it as more modern day political spin, rhetoric and tokenism.

No less than 15 editorials in Australia's major newspapers were devoted to the Prime Minister's establishment of over 100 reviews and committees. *The Australian* described it as "chaos". Leader-writers implored the Prime Minister to start governing and stop procrastinating. Others highlighted centralised control of ministers and their media appearances. Even Bob Hawke advised the Prime Minister that he

would get a better result and a more productive team if he gave his ministers appropriate leeway and trust.

The middle year of a new government is usually a time to produce concrete results on the delivery of its election promises and to begin positioning the government for the next election. The fiscal crisis has put paid to the luxury of taking such a posture untrammelled, but there must be more concrete outcomes from the Rudd government in 2009. A process is not an outcome.

The final conundrum

One final conundrum remains. It concerns the unions. Given they were largely responsible for the government's election victory, they have received little in return. The new industrial relations policy looks to be a long way from the ideal for which they campaigned. The government's decisions on funding for private schools and the neglect of public schools are completely counter to their stance. The unions described these policies as "corrupt". Inaction on work/life balance, including maternity leave and other workplace issues, are frustrating the unions. Mooted privatisations are counter to their expectations, as are cuts to the public service and its programs. Unless the government thinks it can win the next election without a repeat of the strong union backing, one could conclude the unions have been promised action on their wish lists in the second term of government.

A fundamental question

The fundamental question is whether the Coalition can exploit this coming year of complexities for the government. Malcolm Turnbull has demonstrated personal mettle in parliamentary and media debate, but the opinion polls reveal he still has to mould his colleagues into an effective team and credible alternative government. This requires being clear about which elements of the Howard philosophy and policy agenda the Coalition retains and which it modifies. Some work has been done on this, but much effort remains. This mid-cycle year of 2009 is the best – and possibly the only – opportunity Turnbull will have.

The views in this article are those of the author and should not be attributed otherwise.