

One line represents the \$A in US cents, while the other is the trade-weighted index of the \$US against the currencies of all the developed countries with which the US trades. The broad similarity of movement of the two lines means that it's the variation in the \$US that is causing most of the variation in the \$A. There are two other ways to drive this point home. First, 95 per cent of the net rise in the \$A from 48 cents in late 2001 to 80 cents in mid-February 2004, took place in the middle of the night – that is, in overseas markets. Given the paucity of new information about the Australian economy at 3 a.m., this can only mean that the value of our currency is being determined by non-Australian factors. Second, the cross-rate of the \$A against the euro, for example, has almost been flat in recent years, as Figure 12 shows.

So if one wishes to forecast the \$A over the course of 2005, all one has to do is forecast the \$US. The conventional view is that, given the large US current account deficit, the \$US must continue to fall. But the Europeans are already complaining about the resulting strength of the euro – the recent adjustment has been described as “brutal” – while the Japanese are unlikely to let the yen appreciate very far. So if the \$US is to fall significantly further, which currencies is it going to fall against? The eventual answer presumably must be: the currencies of non-Japan Asia, a process that can really only begin in earnest when the Chinese repeg. An upward movement of the yuan, of the order of at least 10 per cent, appears likely some time in 2005. This, and the flow-on effects on other Asian currencies, may give the US some relief. China is responsible for about one-quarter of the US trade imbalance. Its surplus with the US is equal to about 9 per cent of its own GDP, so obviously it will be aiming for a relatively slow adjustment.

Of course, if the main exchange rate story in 2005 is the fall of the \$US against Asian currencies, then it is by no means inevitable that this will push the \$A higher against the \$US. The “trend is your friend” method of forecasting suggests that our currency could keep rising to the low 80s, but it is also possible that this episode is already over, and that the \$A will settle down in the 70s in 2005.

A quick thought on fiscal policy

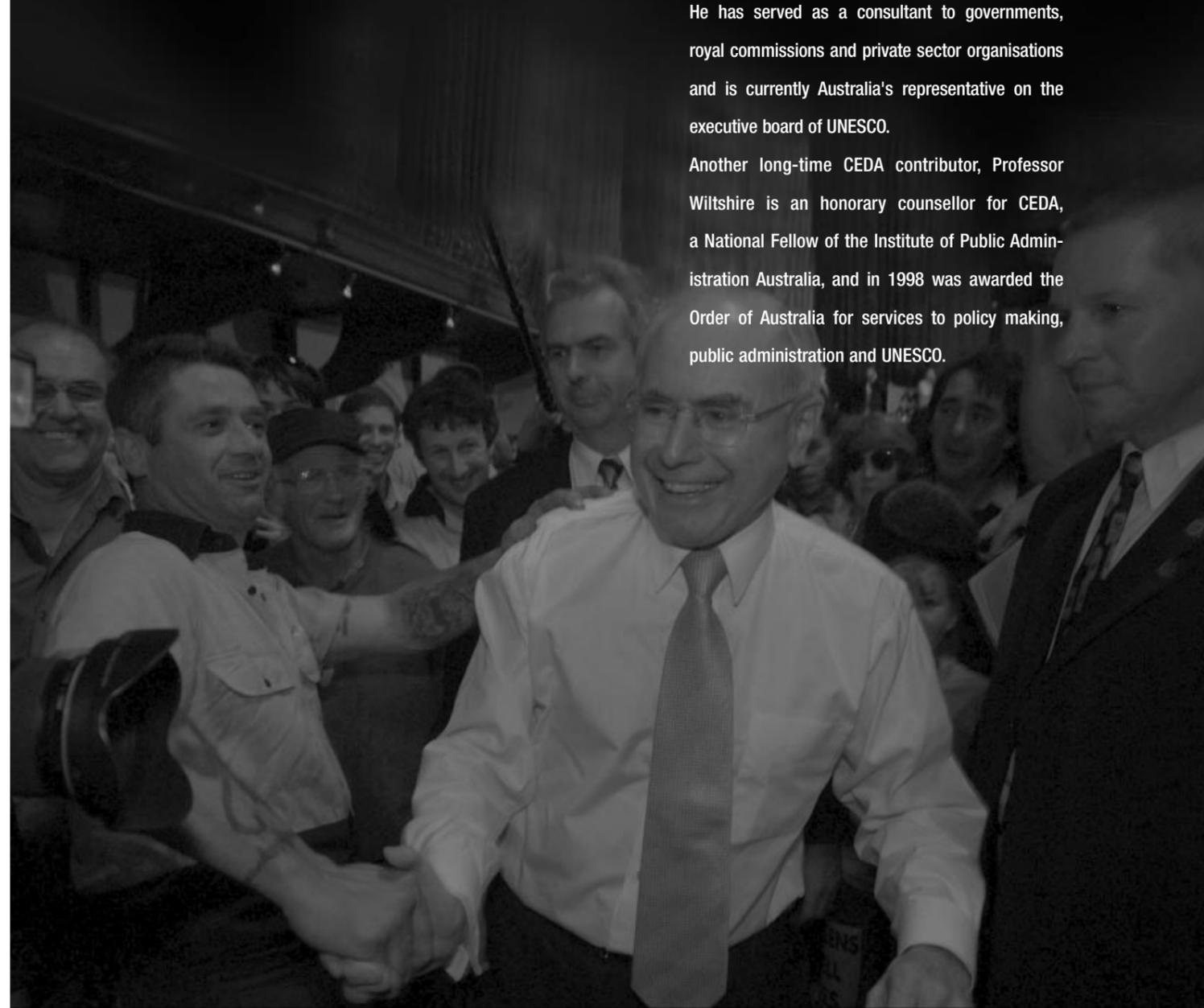
The overview made the point last year that fiscal policy is driven far more by electoral considerations than economic considerations. And 2004 reinforced this point. It now appears very likely that GDP growth in 2004/05 will be not much more than 2.5 per cent, down considerably from the 3.5 per cent assumed at budget time. There have already been suggestions that, as a result of this lower growth, the federal government may decide that some of its election promises can no longer be afforded. We like to think that sensible economics still plays some role in the budget process. If economic growth disappoints, and if the fiscal stance were appropriate beforehand, then the rational response is to loosen policy in order to assist growth, rather than to tighten policy on the grounds that the slower economy means that promises cannot now be afforded. After all, the budget exists to serve the needs of the economy, and not the other way around.

¹ The price quoted here is that for West Texas Intermediate (WTI), the most commonly quoted price. Until recently, I had thought that West Texas Intermediate was George Bush's last year at high school.

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“The persistent questioning of John Howard’s future has died away. Clearly he can now choose his own path...”

2004 in retrospect

On Saturday 9 October 2004, John Howard’s Liberal–National Coalition achieved a decisive election victory and was returned to a fourth term of office, a very rare feat for any Australian government. In December 2004 John Howard became the second-longest-serving prime minister in Australian history.

Labor’s early-year honeymoon

The context of the election contained a great deal of speculation and some very significant events. With new leader Mark Latham enjoying the traditional “honeymoon” with voters in early 2004, the Labor Opposition had overtaken the government in the opinion polls. The internal party divisions over Latham’s very close leadership contest with Kim Beazley seemed to have healed. The maverick style of the new leader was appealing to the media and appeared to be producing results. The Australian Democrats had imploded and almost fallen off the radar screen, and the Greens had become the key minor party. Labor was in power in every state and territory.

The government produced some highly significant outcomes as the year progressed. Treasurer Peter Costello delivered a federal budget which contained some tax cuts, other initiatives aimed at intergenerational change and the elderly, welfare/work and family initiatives, health and education, while retaining a reasonable surplus. Despite some debate about the nature of the losers in the income tax cuts, and the effectiveness of the welfare/work/family balance, the budget was very well received. Good economic news continued to flow in. A free trade agreement with the United States was a coup, despite Labor scoring some political points with last-minute amendments in the parliament to media aspects and the Pharmaceutical Benefit Scheme. A free trade agreement with Thailand, the visit of the leaders of the US and China in the same week, significant engagement with Asia, and particularly Indonesia, in difficult circumstances, strong government support for the ongoing presence in Iraq, a tough stand in the Pacific to combat terrorism and encourage good

governance in Pacific countries – all these added to the list of positives. The Olympic Games took place and Australia performed superbly. The airwaves were relatively free of politics. You might reasonably have expected the government’s stocks to rise. But still the polls told of an election too close to call, with many voters undecided.

This has been the story of many recent Australian elections, including the 2001 federal election: the government ahead on economic and security issues; Labor ahead on health, education and the environment; John Howard the preferred prime minister, but his government only just matching Labor’s apparent two-party preferred vote. Once again it appeared that the result in the marginal seats and the allocation of preferences of minor parties would determine the outcome.

The Coalition’s clean sweep

In the event, the Coalition achieved a 1.8 per cent nationwide swing on a two-party preferred basis, for a net gain of five seats. Table 1 and Figure 1 show the details.

TABLE 1: AUSTRALIA NATIONAL ELECTION 2004

	% OF VOTE	% SWING	SEATS 2004	SEATS 2001	GAIN
Coalition	52.74	+1.79	86	81	+5
ALP	47.26	-1.79	60	65	-5

SOURCE: AUSTRALIAN ELECTORAL COMMISSION

The primary vote was the real revelation. Tables 2 and 3 and Figure 1 tell of a historical trend which has given Labor most concern. Many Labor luminaries observe that the party cannot hope to form government if it cannot convince more than two-fifths of voters to vote “1” for its candidates in their local electorates. And some uncomfortably draw a trendline through the party’s generally declining results since the postwar high point of Bob Hawke’s 1983 win.

Figure 1: The Liberal Party’s return to dominance SOURCE: AUSTRALIAN ELECTORAL COMMISSION





TABLE 2: AUSTRALIA NATIONAL ELECTION 2004

	PRIMARY VOTE %
Liberal	40.47
National	5.89
ALP	37.64
Greens	7.19
Independents	2.44
Family First	2.01
Democrats	1.24
One Nation	1.19
CDP Christian Party	0.62

SOURCE: AUSTRALIAN ELECTORAL COMMISSION

TABLE 3: RECENT NATIONAL ELECTIONS – ALP PERFORMANCE

	% PRIMARY VOTE	SWING %
1996	38.75	-6.17
1998	40.10	+1.34
2001	37.84	-2.26
2004	37.64	-0.20

SOURCE: AUSTRALIAN ELECTORAL COMMISSION

The increased support in 2004 for the Coalition and associated preference flows spilled over into the Senate vote, to present a surprised but grateful Coalition with a one-seat Senate majority (see Table 4). The Howard government thus became the first government to win the Senate since the Fraser government in 1978.

In Australian politics, parties form government by winning a lower house (House of Representatives) majority. Usually these governments then face an upper house (Senate) elected through a slightly different method in which they are but a minority. They must therefore negotiate with the Opposition and minor parties to pass legislation on most matters. The Howard government, for example, negotiated with the minor parties to secure the goods and services tax (GST) and the part-sale of Telstra. Control of the Senate by the Coalition should have far-reaching significance for Australian politics.

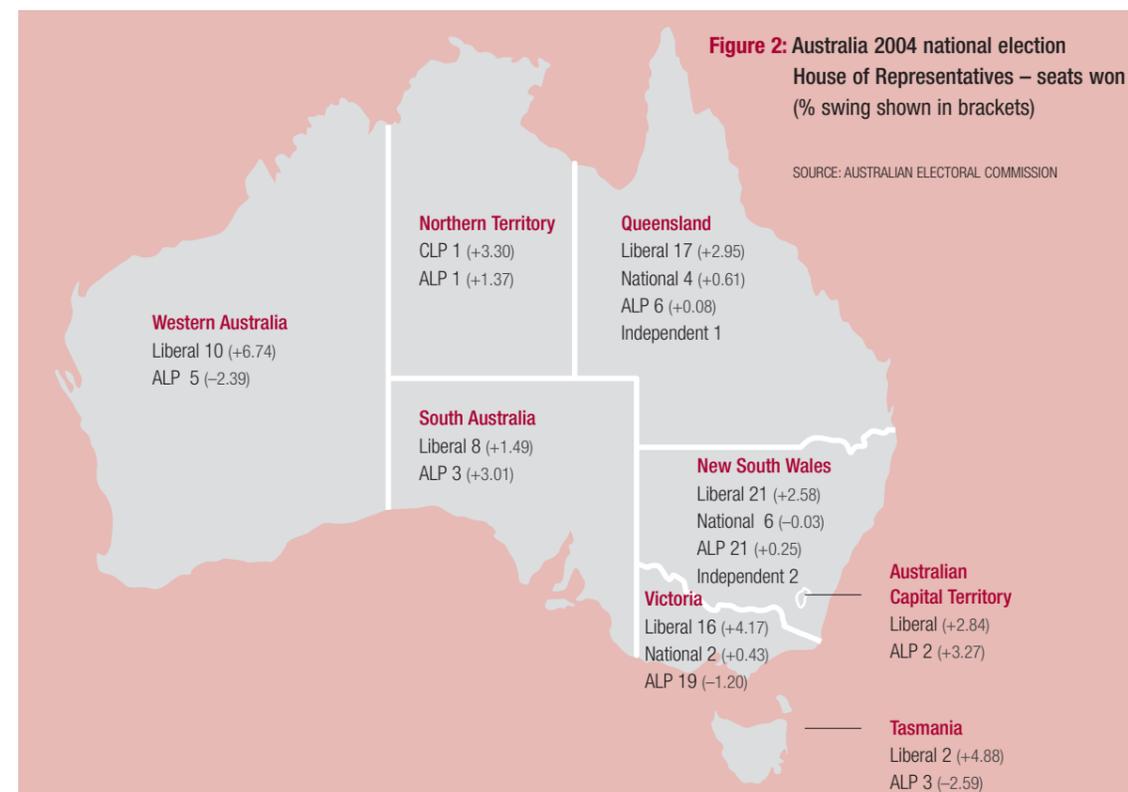
The performance by state is shown on the map in Figure 2. Clearly the government performed best, in terms of swings, in Western Australia, Tasmania and Victoria. It holds a heavy share of seats in Queensland, South Australia and Western Australia. For Labor, the failure to capture crucial marginal seats in Queensland, the loss of two seats in Tasmania, and the continued fall in support in Western Australia were big disappointments.

TABLE 4: SENATE VOTE 2004 – SENATORS ELECTED

	COALITION			AUSTRALIAN LABOR PARTY	GREENS	FAMILY FIRST	AUSTRALIAN DEMOCRATS	TOTAL
	LIBERAL PARTY	NATIONAL PARTY	COUNTRY LIBERAL PARTY					
NSW	2	1		3				6
Vic	2	1		2		1		6
Qld	3	1		2				6
WA	3			2	1			6
SA	3			3				6
Tas	3			2	1			6
ACT	1			1				2
NT			1	1				2
Total	17	3	1	16	2	1	0	40
All senators (includes those elected in 2001)	33	5	1	28	4	1	4	76

COALITION TOTAL: 39

SOURCE: AUSTRALIAN ELECTORAL COMMISSION



Howard's best campaign?

The Coalition clearly out-campaigned Labor. The prime minister had chosen to run almost a full term, rather than capitalise on the poor polling for Labor early in the year after their change of leadership. Clearly he wanted to go to the polls before the US election, and a window of opportunity arose just after the Olympics. He also chose a long campaign period, calculating that the Labor leader would suffer from greater exposure. The election result showed his strategic smarts. As Figure 1 shows, no other prime minister since World War II has recorded a second consecutive increase in his government's two-party vote.

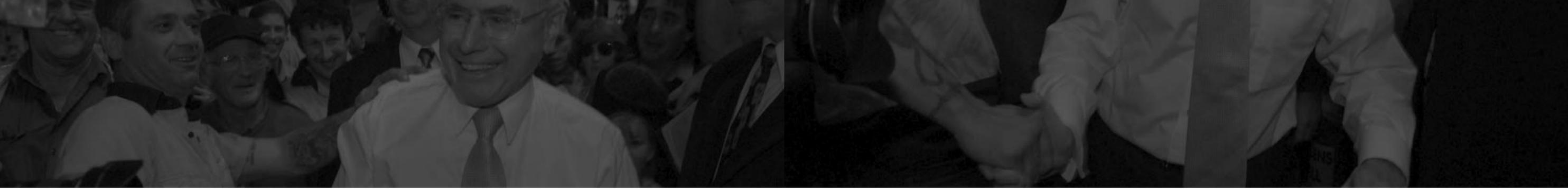
Coalition consistency

When Mr Howard did fire the starting gun he came out of the blocks powerfully, confronting concerns about his trustworthiness by presenting his own variation on "trust" – trust in the Coalition's competence to run the economy and to secure standards of living, particularly through low interest

rates. He suggested interest rates would rise significantly under a Labor government. And he focused that message on the marginal seats in suburban "mortgage belts" of new home-owners, where concerns about taxation had swung the 2001 election in his favour.

Whether loved or loathed, the Coalition remained consistent on its main policy planks and their main philosophical underpinning – the constant emphasis on choice in policy delivery. The choice theme was applied in this campaign most visibly in respect of workplace arrangements, work/family balance, health care and health insurance, education and superannuation. Voters generally respond positively to consistency: it translates as certainty.

It is also clear in retrospect that leadership helped the Coalition. Throughout the campaign, polls reported Howard remaining the voters' preferred prime minister. The *Economist* magazine opined that "the Prime Minister's instinct for what is on the mind of suburban Australia is uncannily accurate".



Labor outmanoeuvred

Labor never really recovered from the Coalition’s early trust-based campaign onslaught. Instead, Labor watched the campaign drift away from it. As long as the campaign was dominated by economic issues, the government had the upper hand. And Labor could not manage to switch sustained attention to its strong issues – health, education, the environment and doubts about the Iraq war. Neither did it ever gain traction with its efforts to convince voters that John Howard would quit the job mid-term.

Mark Latham presented a somewhat confusing image. Latham eschewed Beazley’s small-target strategy in favour of a higher risk profile. Yet the policies he finally espoused did not square with many of his bold pre-2004 views and philosophies. The ALP instead presented a curious amalgam of “New Labor” market-oriented solutions and “Old Labor” interventionist ideas. Dubiously-costed promises of free health care for the elderly, a severe and punitive redistribution of funding for the private school sector, hasty off-the-cuff positions on

Iraq and doubts about the US alliance, and threats of impositions on the business sector, together with a return to a union-centric industrial relations system – all these suggested a party unsure of its direction.

The crowning blow to Labor’s campaign was the release, in the campaign’s last week, of both parties’ policies for Tasmanian old-growth forests. The prime minister scored a political coup by waiting until the Labor leader had launched his promises and their costings, before launching a Coalition policy designed more to protect the jobs of forestry workers. Labor’s forest policy launch presented voters with the spectacle of a relatively unknown federal Labor leader battling with a state branch of his own party. The Coalition’s launch reinforced Howard’s image as an ordinary man more in touch with blue-collar workers or “battlers”. These people, normally Labor’s constituency, have been moving from Labor to the Howard government throughout his prime ministership.

BOX 1:

An environmental strategy goes awry

Labor’s 2004 bid for the “green” vote suggests limits to the power of conventional pro-environment political strategy.

Labor aimed to gain Green preferences in strategic marginal mainland seats in exchange for putting at risk Tasmanian seats, all five of them held by Labor. On the face of it, the strategy looked plausible. Previous preference deals aimed at delivering marginal seats have been credited with swinging the outcomes of national elections. So why did this one fail?

Greens an uneasy option

The strategy underperformed in part because the Green vote fell short of predictions right across the nation. First, previous support for the Australian Democrats did not completely transfer to their more identifiably left-wing cousins. Second, the Coalition’s highlighting of previously largely unexamined Green policies on drugs and social issues late in the campaign may have frightened

away voters who contemplated supporting them. Third, the rise of the Family First Party in many electorates may have provided another outlet for voters wanting to vote for a minor party and “teach the government a lesson”.

Labor executes poorly

Clumsy presentation may have limited Labor’s direct gains from its forests policy: the party gave too little time and attention to spelling out the measures taken to protect timber workers. Labor may also have underexploited star environmental advocate Peter Garrett – or perhaps Garrett’s recruitment simply backfired, given the confusion over his past electoral enrolment record. And the pro-environment votes that did move to Labor moved in the wrong seats – the likes of Sydney’s leafy Mosman, rather than Adelaide’s gritty Morphett Vale.

TABLE 5: ELECTION ISSUES 2004 NATIONAL ELECTION

	ISSUES RATED VERY IMPORTANT IN DECIDING VOTE (% OF ELECTORS)							COALITION SUPPORT	ALP SUPPORT
	TOTAL (JUNE)	TOTAL (OCT)	MALE	FEMALE	18-34	35-49	50+		
Health/Medicare	82	68	60	76	57	69	75	64	76
Education	80	62	55	69	59	64	63	58	71
Economy	n/a	57	57	57	49	57	63	77	43
Leadership	65	54	55	53	44	54	61	63	49
National Security	66	48	45	51	40	45	57	61	40
Environment	60	44	40	49	42	38	51	38	48
Interest Rates	43	37	36	39	32	40	39	49	30

SOURCE: NEWSPOLL

The business sector became very concerned by the bidding war that erupted during the long campaign. A sizeable projected budget surplus was available to both sides. Nevertheless the prime minister – an avowed fiscal conservative – showed a remarkable willingness to match spending promises emanating from the Opposition, even given the tightness of polling results throughout much of the campaign.

In hindsight, Howard’s bids seem unnecessarily large. When the economy is performing well and there is no demonstrable reason to change horses, an incumbent government is in a strong position. ALP policy inconsistency strengthened the Coalition’s position further.

Since the election, Labor has aired internal concerns over the capacity of its polling, research and campaign coordination. Once the clear leader in seat-by-seat tactics, it now lags its Liberal rival. The Green vote in mainland electorates failed to deliver victory to Labor and lost it two seats in Tasmania, whereas the preference deal brokered by the prime minister with the Family First Party seems to have delivered the government some benefits.

Goodbye gender gap, hello age gap

A Newspoll carried out soon after the election asked respondents which issues they had found to be very important in deciding their vote. These are listed in Table 5.

The Newspoll results make plain that the issues and their ranking have barely changed over the last two federal elections. Newspoll also shows the

nation’s demographic split: the youth vote has been rusted onto Labor for some time, and the aged vote is rusted onto the Coalition. The Coalition did not really attempt to woo the youth vote; indeed, it probably alienated younger voters with its policies on higher education fees, the environment, and international and security issues. However, Labor made a very strong pitch for the elderly vote, especially through the so-called Medicare Gold policy – and it failed. Labor’s failure to eat into the Coalition’s lead with older voters will attract a great deal of research between now and the next election. The timing of the policy’s release (late in the campaign and seemingly on the run) and issues with its costing may not fully explain Labor’s failure; elderly voters simply seem to be hard to shift.

In contrast, the modern gender vote is more evenly split between the Coalition and Labor than at any time in Australia’s history.

The post-election polling also gives tentative support to the theory that voters regarded the economy, leadership and national security as the campaign’s most important issues – and that they considered the government’s record and promise on those matters as more appealing. Labor’s approach to health, welfare, education and environmental policy, on this thesis, could never have won it government.

The survey data also camouflages to some extent the more detailed issues of the campaign, which the directors of both the major parties have subsequently admitted were influential. These, of course, include the government’s effective campaign



on interest rates. The Labor leader's occasional hectoring image may also have turned away some voters, despite his apparent appeal in the televised election debate. And Labor seems to have misjudged the potential for doubts about the costings of its policies – many of which seem to have been released too late for the electorate to digest, let alone believe. Respected former Labor minister Bob McMullan has argued that “the reason people voted differently in 2004 has to reflect a changed perception of risk” – a statement that contains implicit criticism of Latham's high-risk strategies.

Several other aspects of the political debate are difficult to quantify but seem to have had an influence on the election result.

State Labor under pressure

One of these is the potential impact of state government performance on the national result. For most of the second half of the twentieth century there was some evidence that the results of state elections were influenced by the performance of parties at the national level. From the late 1980s it began to emerge that the reverse could also be true: state government performance could influence national results.

Could the policies and performances of Labor's state and territory governments have hurt its national support? Mark Latham himself, in his election post-mortem, raised the prospect. His Labor “colleagues” running the states immediately jumped on him, most claiming that party polling ruled it out. Yet the fact remains that most Labor state governments lost support through 2004. This is certainly true in Western Australia, the next state to go to the polls, and in South Australia. The Queensland government was forced to the polls early in 2004 to avoid further damage over issues including the governance and accountability of state-owned corporations. The Queensland premier, along with several of his colleagues, also gazumped his federal leader by declaring his support for John Howard's efforts to secure a free trade agreement with the US. Bob Carr offered to hand over health to the Commonwealth. The Tasmanian premier set himself at loggerheads with his federal counterparts over ALP forests policy. And from the moment Mark Latham assumed the

federal ALP leadership, the premiers offered at best lukewarm support. During the federal election campaign they did very little individually or collectively to help the campaign. All this despite John Howard's barrage against the state governments, and his attempts to bypass them in several sectors.

It seems reasonable to speculate that state Labor governments were not much of an asset in the national election campaign and could have cost votes – though perhaps not as many as Mark Latham would suggest.

The return of religion?

The second imponderable is religion. Admittedly, institutional religion is no longer the potent force in politics it once was. However, it seems reasonable to speculate that the Coalition's policies would have appealed more to many religious voters: Peter Costello's budget-time baby bonuses, a policy on schools funding which preserved the position of the independent and especially Catholic schools, and John Howard's strong stance on traditional family values and marriage. The preference deal with Family First is another indication of the significance of religion and conservative social values in the campaign. Several Labor frontbenchers argued post-election that the party needed to acknowledge the significance of religious influences on voters – an issue which is also being confronted by the US Democratic Party in the wake of its 2004 loss.

Media misjudgments

The campaign had one last noteworthy feature: the media diverged from each other and the electorate more than in most recent campaigns. The most obvious examples were foreign journalists (and Australian journalists writing for international

The campaign had one last noteworthy feature: the media diverged from each other and the electorate more than in most recent campaigns.

audiences) who constantly asserted that Iraq, Afghanistan, the Australian participation in the US-led Coalition, the US alliance itself, and issues of terrorism, security, engagement with Asia and foreign policy generally were the main election issues. They clearly missed the mark: domestic issues (particularly the economy) dominated voters' decisions; the government remained fully engaged with Asia while maintaining the close alliance with the US. In the domestic media, the consistent and persistent personal biases of certain journalists – some for the Coalition, some for Labor – were more overt than ever seen before in an Australian election campaign, indicating either a freer hand given them by editors or something about this campaign which unleashed more vitriol than normal. In contrast to this we saw the *Sydney Morning Herald* defy centuries of tradition in western democracies and not contribute to the democratic debate by writing an editorial advocating one party or another.

The aftermath: Labor staggers

The election result left Labor bewildered, almost panicky. Several shadow cabinet members returned to the backbench – some of their own volition, others pushed. Many Labor members claimed that Mark Latham had failed to accept his share of the blame for the loss. Labor's reduced team of parliamentarians re-elected him as leader in the absence of an obvious opponent, but opinion in some influential Labor circles in late 2004 was that he would not remain leader for long. He revamped his frontbench, announced this was part of a plan to address the party's poor showing on the economy and get closer to business, and hinted that Labor would reverse its stance on some Coalition workplace and industrial relations initiatives it had fiercely opposed in the past. That drew the ire of the trade union movement.

The events of late 2004 and early 2005 were dominated by the tsunami disaster in the Indian Ocean when the government acted swiftly and generously to assist affected Asian neighbours. It thereby gained considerable goodwill in the region. The aftermath of the tsunami also saw Labor leader Mark Latham, suffering from severe ill-health, resign from the Opposition leadership and from parliament

TABLE 6: POLLING: END 2004

COALITION	
Primary vote	
Election	46.7%
Dec 2004	47.0%
Two-party preferred vote	
Election	52.8%
Dec 2004	55.0%
John Howard	
Satisfied with performance	56.0%
Dissatisfied	35.0%
Preferred Prime Minister	60.0%
LABOR	
Primary vote	
Election	37.6%
Dec 2004	33.0%
Two-party preferred vote	
Election	47.2%
Dec 2004	45.0%
Mark Latham	
Satisfied with performance	38.0%
Dissatisfied	46.0%
Preferred Prime Minister	25.0%

as well. This ended a bold experiment for Labor – but one which the party seemed unlikely to repeat.

The government's post-election issues, in contrast, have been driven by the realisation of their new power. Despite John Howard's warnings, various Coalition members endeavoured to reopen the debates on abortion and other social issues. The National Party quickly came to realise its potential influence over the sale of Telstra. The prime minister managed to hose down these fires as well as revelations of probable robbing of pre-election grants to certain electorates and the breaking by a minister of the Ministerial Code of Conduct. None of this appears to have much damaged the Coalition. Table 6 shows the picture at the end of 2004.

2005 in prospect

Governments elected for a fourth term face two paths:

- rest on your laurels, enjoy the view from the summit, reward the faithful, and stop the reform process. Settle instead for the perfect status quo which you have created.
- seize the opportunity to tackle deep and lasting reforms, seemingly intractable problems, with an altruistic view towards long-term benefit for the whole community, with a sense of history and how you will be remembered.

The fourth term conundrum

The Howard government is presented with an unprecedented opportunity to pursue the latter course, especially as it will control the Senate. Indeed, if it decides to take risks, it could well count on two more terms – six years – in charge of both houses.

There are not many domestic or international precedents in modern democracies for fourth-term agendas, given the growing volatility of politics in this era. The one fourth term with some striking parallels is that of the Hawke government from 1990. After its previous waves of reform in the microeconomic arena, liberalisation of international fiscal relations, public administration, and so on, Hawke turned his attention to the “hardest nut to crack” – federal–state relations. He instituted the “New Federalism”, whose impact is still being felt. The nature of Australia’s major policy challenges ensures federal–state relations will challenge John Howard too.

Unblocking the Senate log-jam

There can be no doubt about the immediate agenda for the Howard government in 2005. It consists of two clear components:

- unblocking the items which were twice rejected by the Senate since the Coalition was first elected in 1996; and
- addressing the election promises made in 2004.

Figure 3 contains the list of topics on which the government has introduced Bills that have been blocked by the Senate and so have been sitting as fodder for a double-dissolution. The key ones are in

Figure 3: Senate Log-jam

Disability support pension
Border protection
Telstra
Small business – Secondary boycotts
Small business – Unfair dismissals
Secret ballots – Industrial relations

the fields of industrial relations, small business and the privatisation of Telstra. In each of these areas, the Coalition has a frustrated ideological commitment. Each has the potential to create severe divisions in the Labor Party. And each, indeed, had already begun to do so at the end of 2004: various Labor frontbenchers suggested that Labor might support some of them as part of its efforts to rebuild relations with the business sector and small business in particular. The unions lost no time in reminding these frontbenchers of Labor’s roots.

Telstra challenges the Nationals

The privatisation of Telstra will not necessarily be straightforward. Liberals face the slightly uncomfortable reality that a new minor party holds the Senate balance of power – the National Party, its Coalition partner. Amid concerns about the quality of telecommunication services in the bush, the Nationals remain restive about the sale of Telstra (T3): a few National backbenchers oppose it outright. Several options have been suggested, including splitting the infrastructure from the value-added components of the network, but it seems certain that the government will press for full privatisation. However, the price extracted by the National Party rump and parts of the industry will be a stronger regulatory framework, guaranteed future-proofing for the bush, and no doubt the allocation of some of the proceeds towards provincial areas in economic and social infrastructure and recurrent services. Deputy prime minister John Anderson will have to be the ever-watchful sheepdog of his flock. And the debate

about what to do with the proceeds of the gigantic T3 sale will begin again. Recall that the options last time round were to pay off debt, address major environmental concerns, plough money back into other infrastructure, and provide tax cuts.

The election manifesto

Not until this election has the Howard government been in a position to deliver on all its election promises. Usually the minor parties who have come to hold the balance of power in the Senate have campaigned in opposition to many government policies and so a “clash of mandates” has ensued. But in 2005 the Howard government has a clear run.

Figure 4 lists all the Howard government’s major election promises as crystallised in the address by the governor-general at the opening of the Forty-First Parliament on 16 November 2004. The long list of promises will help shape the Australian policy agenda for the next three years and beyond. A number of issues arise from them.

Funding

After all these items are taken off the shelves and put in the shopping trolley, the bill at the checkout will

be very large. Indeed, some of these items were not in the Coalition shopping trolley at the beginning of the election, but were thrown in as Labor paraded its own trolley down the aisles. Although the budget surplus was predicted to be growing towards the end of 2004, both the treasurer and prime minister were also warning of a slowdown in national economic growth and the Canberra mandarins were reported to be busy in a pre-Christmas public sector slashing frenzy that would make Scrooge pale by comparison. It is not certain that Australia will be able to afford the full list – especially as the T3 sale proceeds will also not become available until towards the end of this fourth term.

Philosophy and vision

The government’s list of promises springs from consistent application of its general philosophies. These philosophies include preference for market solutions over public intervention; policy delivery based on choice, with alternatives delivered through incentives rather than through pure public provision; encouragement of individual self-reliance rather than dependency, and the now-famous hallmark of the Howard years – mutual obligation.

Figure 4: Howard government election manifesto 2004–6

Future fund	Auslink	Mental health access
Welfare dependency	Media ownership	Aged-private health insurance concession
Mature-age workers	Regulation of broadcasting	New Department of Human Services
Small business tax cuts	Telstra sale	Regional services
Labour market reform	Free trade agreements – US, Thailand, China, Malaysia, ASEAN	National Indigenous council
Independent contractors	Export market development grants	Indigenous shared responsibilities
Skills shortages	Child care – Tax rebate	Water initiatives
New Commonwealth training colleges	Grandparent carers	Old growth forests
School infrastructure	Family law reform	Kyoto targets achievement
Parental choice of schools	Medicare – 100 per cent GP rebate and safety net	
Entrepreneurs tax cuts and deregulation		



The government speaks of Australia becoming a “beacon of democracy and tolerance underpinned by a prosperous economy and a fair society”, and it sees restoration of the economic foundations as the key to achieving these aims. But no grand vision is in evidence.

Of course, Australia’s three-year election cycle leaves little more than two years for political manoeuvring. That makes long-term vision difficult to promise, let alone achieve. Thus Australian election promises usually look incremental and piecemeal.

However, there were some welcome flashes of light on the road to Parliament Hill during the campaign. One was the prime minister’s admission that he had personally not realised the importance of the vocational education and training system, and the chronic skills shortage facing the nation in many sectors. These issues have traditionally been a Labor stronghold, but the Coalition now seems ready to address them. Another was the discovery by all major parties of the needs of the elderly and the consequences of an ageing population. For the ageing, the election campaign unfolded as “Sale of the Century”, the leaders striving to outbid each other with policy initiatives on their behalf.

Coalition turns centralist

During the Howard governments we have witnessed one of the most profound transformations in Australian political history. The Liberal Party, once the champion of states’ rights and decentralisation of government, has become centralist in its philosophy and policy. In federal–state finance, the Commonwealth’s provision of GST takings to the states seems to have assumed a pre-eminent role. Surrounding the GST funds flow are conditional funding mechanisms that outdo even Gough Whitlam’s efforts. And as prime minister, John Howard has frequently depicted the states as “service delivery” entities with little role in policy.

Now, remarkably, John Howard seeks to bypass the state governments in Commonwealth initiatives. His campaign launch focused enthusiastically on the swag of initiatives that would see the Commonwealth dealing directly with recipients of services and bypassing the states: school funding; Commonwealth technical colleges (which bypass

the TAFE system); and the abolition of the Australian National Training Authority, until now the vehicle which gave the states and territories leverage in vocational education and training. When the Commonwealth unilaterally announced that it would henceforth cease payment to the states for National Competition Policy and divert those funds to new water initiatives, the states howled in outrage. At the end of 2004 there was considerable concern among the states that large companies with Commonwealth incentives would be shifting to Comcare (the Commonwealth workers’ compensation scheme), rendering state systems unviable. At one point, Bob Carr added his own proposal for a federal takeover of the hospital system – an offer that produced disunity among his fellow premiers and a cool reception from Canberra.

In schooling, the Commonwealth now seems set to continue to drive the states towards more accountability to parents, more uniform policies, and a clearer focus on literacy. A total takeover of higher education powers from the states has also been mooted to accompany Commonwealth initiatives reinforced during the election campaign towards reform of workplace arrangements, performance benchmarks, and compulsory student union membership in universities.

Meanwhile, the Commonwealth seems largely content to watch the state and territory governments grapple with each other over the reform of the Horizontal Fiscal Equalisation scheme which carves up federal funding among them, and which New South Wales and Victoria and, to a lesser extent, Western Australia, have challenged to the anger of the other states and territories. The results of the review will become available in 2005.

One other event points towards a possible lessening of state influence. Shortly after the election, John Howard spoke to the National Assembly of the Australian Local Government Association of the two great current trends in Australia being nationalism and localism. His address contained more than a hint of future growth in direct Commonwealth–local government relations.

Australia was already the most fiscally centralised federation in the world. Now all the major national political parties in Australia are of a centralist

persuasion. A profound change is occurring in the way Australia is governed. The central dynamic of 2005 politics may be not the Coalition’s battle with Labor, but Canberra’s battle with the states.

But don’t forget ...

So what has been left out and what has been underdone? Does the government’s election manifesto address all of the issues as seen by the community, especially the business and economic community? Clearly the answer is “no”. Several key issues have been raised during and since the election which do not seem to have been addressed adequately, and which will boil over in 2005.

Tax reform

The business community in particular is calling for further tax cuts to lower and restructure personal tax rates so that they approach the company tax rates, to reform business taxes (especially state taxes), to make the tax regime more internationally competitive, and to provide continued productivity growth. It is also seen as vital to address issues of intergenerational equity.

The emergence of a large ginger group of coalition backbenchers advocating tax reduction and reform is a very significant political development and will provide a headache for the prime minister and the treasurer throughout the whole of the current term of government.

Productivity

The need to achieve greater productivity is seen by many as the next necessary step in the reform process in Australia. Tax changes, changed workplace arrangements, superannuation policies, export incentives and many policy responses have been mooted. Outside the field of industrial relations the federal government has shown relatively little interest.

Infrastructure

Apart from the national land transport plan Auslink, governments have paid far too little attention to Australia’s mid- to long-term demand for infrastructure. The news media continued to report failures in energy grids, ports that cannot handle

shipping demands, and national rail and road network inadequacies on the front pages and at the top of broadcasts. Economic and social infrastructure lag way behind growth in population and settlement, especially in high-growth areas such as south-east Queensland, outer Sydney and outer Melbourne. Governments have responded far too slowly. Paradoxically, although the Commonwealth and most state governments resist borrowing themselves to fund infrastructure demands, they will not wholly embrace public–private partnerships (PPPs) to meet these needs. Indeed, the federal taxation system still contains a positive disincentive to PPPs, strange for a supposedly free-enterprise government. This whole arena is truly one for a national visionary approach which the current political milieu could deliver.

Indigenous issues

Towards the end of 2004 there were signs of a fresh approach to the very serious plight of indigenous communities. John Howard established the National Indigenous Council to replace the failed ATSIC and copped more criticism for it from an indigenous policy community already uncomfortable with Howard’s “mutual obligation” philosophy. Yet the indigenous communities themselves and many of their leaders seem to approve the prime minister’s mooted shift from welfare dependency. There is even talk of an accord and some form of land title for indigenous communities. Labor state governments, meanwhile, have stayed notably quiet on indigenous issues.

The implications of an ageing population

The federal government, CEDA and the Productivity Commission, among others, have warned of the need to change policy settings to meet the cost of an ageing population. Projections they have delivered reveal a heavy burden to fall on the taxation system or on other areas of public expenditure. The government has made a start, and other nations face an even heavier burden, but in Australia much remains to be done in this domain.



Photo: Craig Abraham/Fairfaxphotos



Long-term unemployment

The good figures during 2004 which showed overall unemployment falling progressively across Australia have continued to mask the significant pockets of long-term unemployment in Australia. There are still many communities where three generations have been unemployed, and where many residents know nothing of income beyond the dole queue.

There are signs of change ahead. The stigma against employing older workers is at last reversing. The government will try to have the Australian Industrial Relations Commission consider the impact on the unemployed of national wage rises. And the rising national skills shortage will drive further attention to pools of unused labour which might, with adequate training, be mobilised.

Leaderships

Election results transform political dynamics. The persistent questioning of John Howard's future has died away. Clearly he can now choose his own path and will no doubt stick to his maxim that he will remain as long as the party wishes him to lead. And Family First will begin to have some impact on the direction of the major parties if their policies and the compact entered into with the Coalition during the election holds – especially the requirement for Family Impact Statements to accompany policy formation. The major parties have already acknowledged the potency of the constituency which Family First represents.

The new leadership and reform of the policies of the Labor Party will be a key focus of 2005.

Whoever the new Labor should be, but particularly if it should be Kim Beazley, Labor will become more business-friendly, more policy-consistent, and closer to the government's position on foreign policy, security and the US alliance. The unknowns are whether the unions will continue to have their current level of influence, and whether Labor will once again adopt a "small target" strategy or choose points of significant differentiation from the Coalition. Polls at the beginning of 2005 showed continued significant drops of support for just about all of the state Labor governments, and this will also preoccupy the party in 2005. Any new national labor leader will have to engage in considerably more consultation not only with federal colleagues but also with Labor state premiers.

The Democrats' new leader will do well to regain even a small measure of relevance in the Australian political scene. The Greens need to regroup, reconsider and better explain the full range of their policies, and to decide whether to shift away from their current position, seen to be close to Labor.

John Howard's once-in-a-lifetime opportunity

Many commentators have observed that John Howard and his government have a once-in-a-lifetime opportunity to shape the nation. The government has an agenda, a mandate, and relatively unfettered power. The attainment of the Senate majority is a profound change in Australian politics. The Coalition's new willingness to centralise power in Canberra may prove even more significant.

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GERRY GRIFFIN

industrial relations overview