



PROFESSOR KENNETH WILTSHIRE AO is the JD Story Professor of Public Administration at the University of Queensland Business School. He is the author of 16 books and numerous scholarly monographs on governance, government–business relations, comparative federalism and public policy. He has served as a consultant to governments, Royal Commissions and private sector organisations and recently completed a six-year term as Australia's representative on the executive board of Unesco.

Another long-time CEDA contributor, Professor Wiltshire is an honorary counsellor for CEDA, a National Fellow of the Institute of Public Administration Australia, and in 1998 was awarded the Order of Australia for services to policy making, public administration and UNESCO.

PM John Howard and Treasurer Peter Costello during Question Time in the House of Representatives, Parliament House
PENNY BRADFIELD/Fairfaxphotos

KENNETH WILTSHIRE

political overview



2005 in retrospect

The year began with the devastating effect of the tsunami in the Indian Ocean. It was destined to be a year when international events and relations would constantly have an impact on Australian politics, particularly through natural disasters, terrorism, and myriad bilateral and multilateral forums and negotiations.

Domestically, the Howard government's agenda had been clear: to implement the 2004 election promises that had contained a number of themes still running from its manifesto back in 1996, but which had been frustrated through not having control of the Senate. However, the government began churning out legislation, choosing not to wait until the magical date of 1 July when the Upper House would belong to the Coalition parties and, in theory, all would be rosy.

The "big ticket" items of 2005 were:

- taxation reform, addressed in the Budget
- the sale of Telstra
- welfare to work
- workplace reform
- terrorism and national security.

When the government attained its majority (of one) in the Senate, the balance of power in that House shifted from the minor parties to the coalition backbenchers, especially those of the National Party. By the year's end these five major policy initiatives had been passed, but often with the accompaniment of acrimony within the coalition party room. Only deft footwork and compromise from the prime minister throughout the year, and constant use of the guillotine in the closing stages of the last Parliamentary session, had achieved the result.

The Australian Labor Party (ALP), as well as taking on a resurgent government entering its fourth term with a number of ideologically based major reforms and imminent control of both houses, had its own internal crises to address. These came principally as a result of the events surrounding the resignation of its former leader Mark Latham and the subsequent fallout from the release of his diaries and his vitriolic interviews. He severely criticised the party and its factions, as well as taking a swipe at a number of figures within the party, including the new leader

Kim Beazley – the ultimate nightmare for any political party.

The successful re-election of the state Labor governments in Western Australia with a 5 per cent swing and the Northern Territory with an 11 per cent swing provided some respite. However, when Beazley decided to oppose the government's budget tax cuts, and then later offer bipartisan support to the government in several policy arenas, including those related to terrorism, the ructions within the party continued, forcing Beazley to vow he would change style and no longer be "Mr Nice Guy". He was given the chance to rehearse this new image when the effective campaign from the trade union movement against the government's workplace reforms moved public opinion against the government and gave Labor a springboard for revitalisation. By the end of 2005 Labor in fact had a slight lead in the polls and, even though this was principally due to the industrial relations issues, for Labor it was a remarkably fortunate ending to a year that had begun so badly (see Figures 1–4).

International relations

There has probably never been a year, outside of wartime, when Australia has been so internationally engaged in so many different arenas. In the wake of the tsunami, Australia gave substantial bilateral aid that flowed through close cooperation with recipient countries. The same was true for many other aid packages for countries experiencing natural disasters throughout the year. Australia's strong involvement in Iraq and Afghanistan continued and Australia's relationships with the United States and Britain remained its strongest alliances.

The impact of *terrorism* was brought to our shores as witnessed by the dramatic raids in Australia on terrorism suspects, and the passing of anti-terrorism and national security legislation. This involved negotiations with state and territory governments, who were uneasy about some of the policing measures proposed. Indeed, the chief minister of the ACT actually revealed some of the presumed confidential details. Civil libertarians were concerned at what they saw as the draconian nature of some of the rules for detention and arrest, and the media led a chorus of concern about the tough



Figure 1: Federal voting intention – Coalition and ALP primary vote

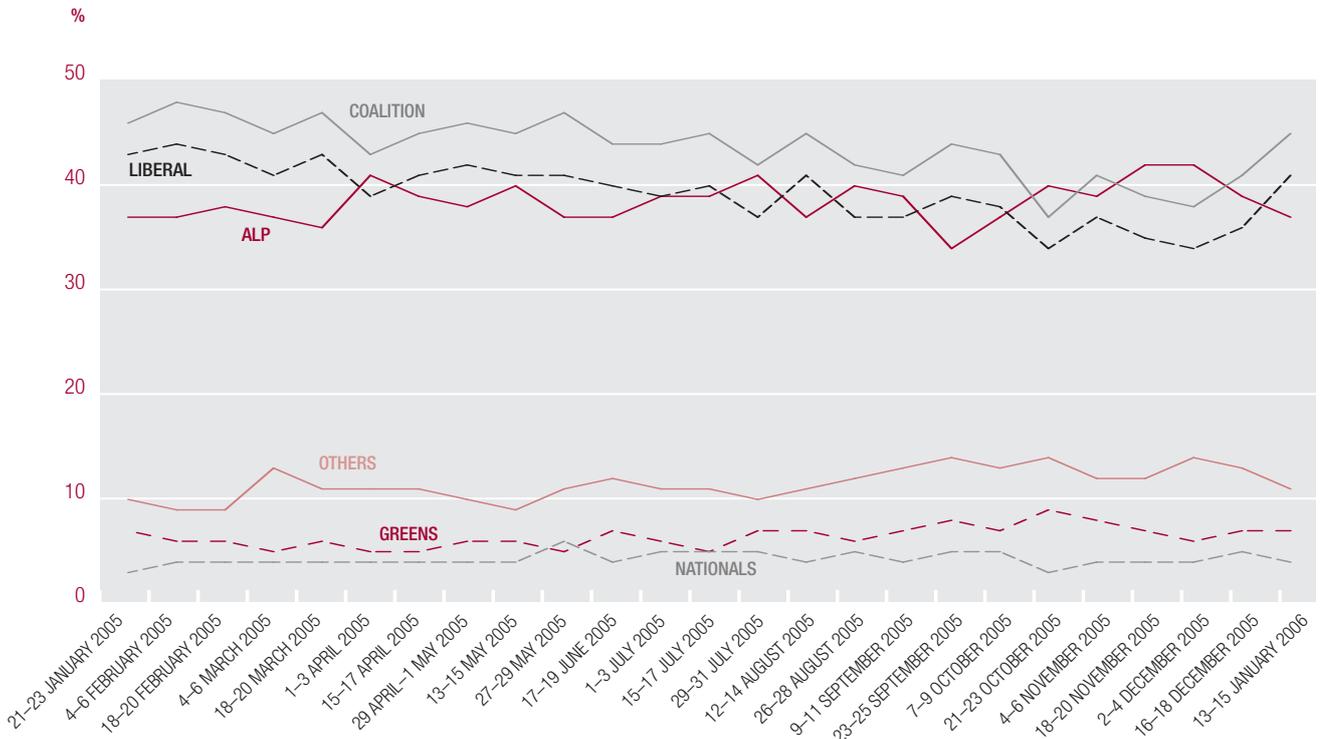


Figure 2: Federal voting intention – Coalition and ALP two-party preferred

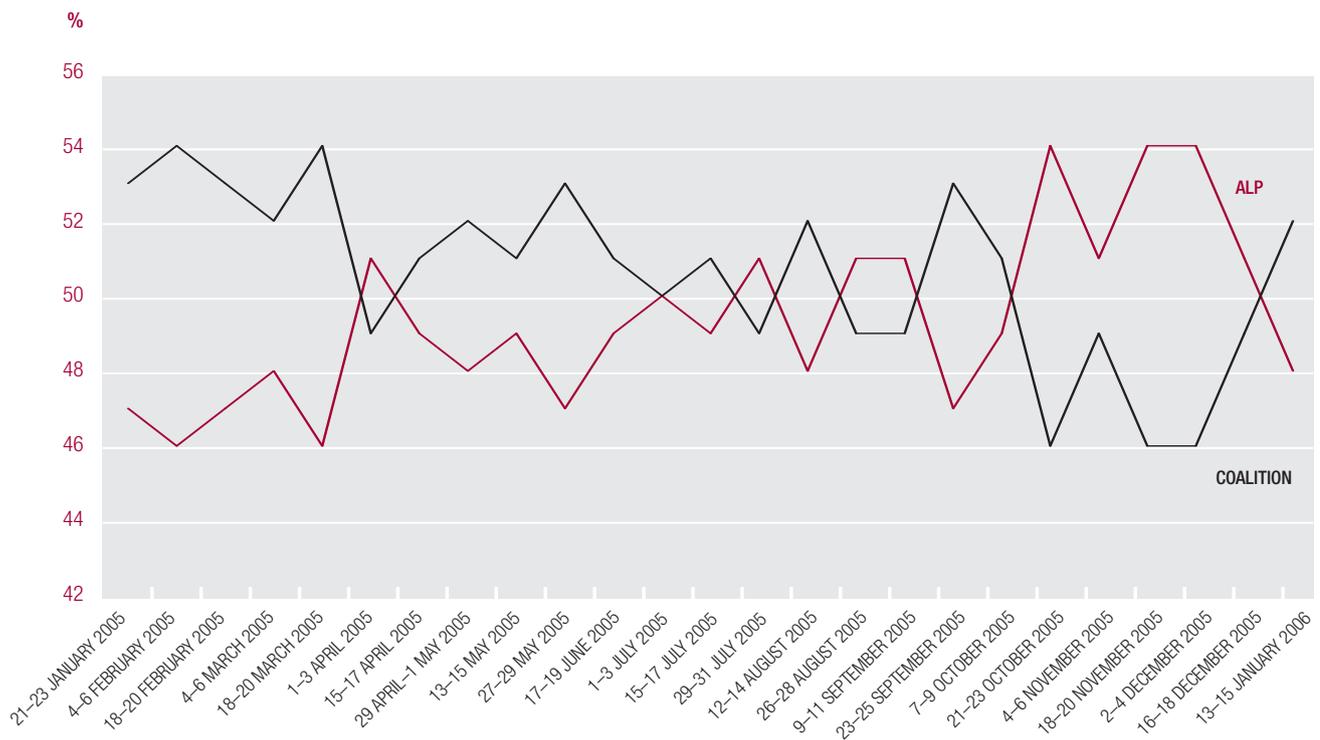




Figure 3: Satisfaction–dissatisfaction with the Prime Minister

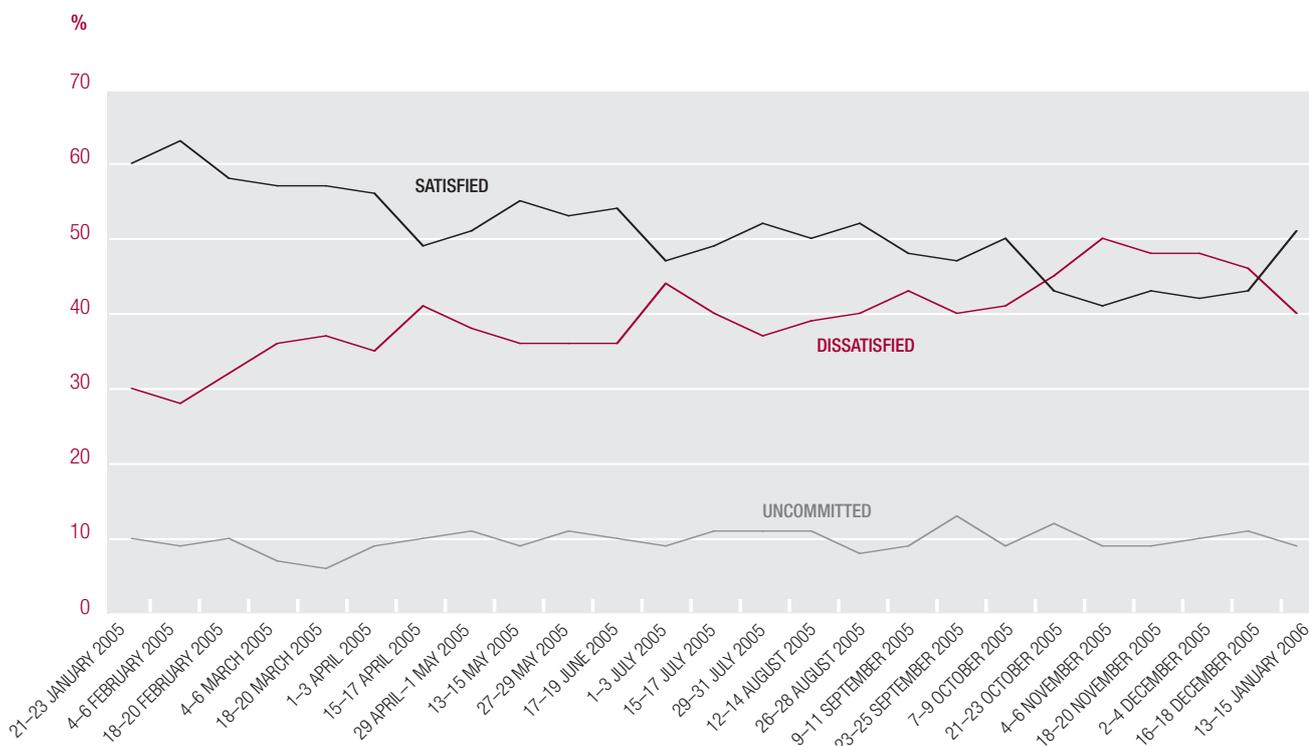
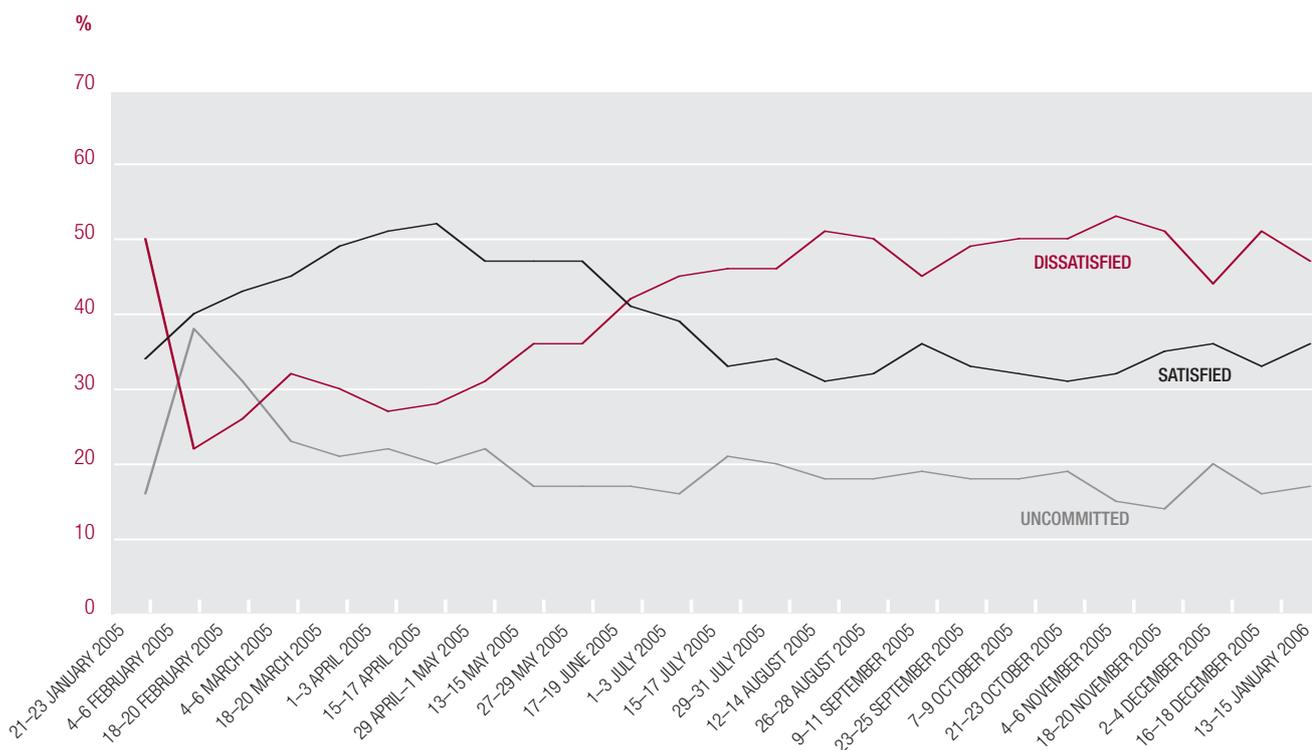
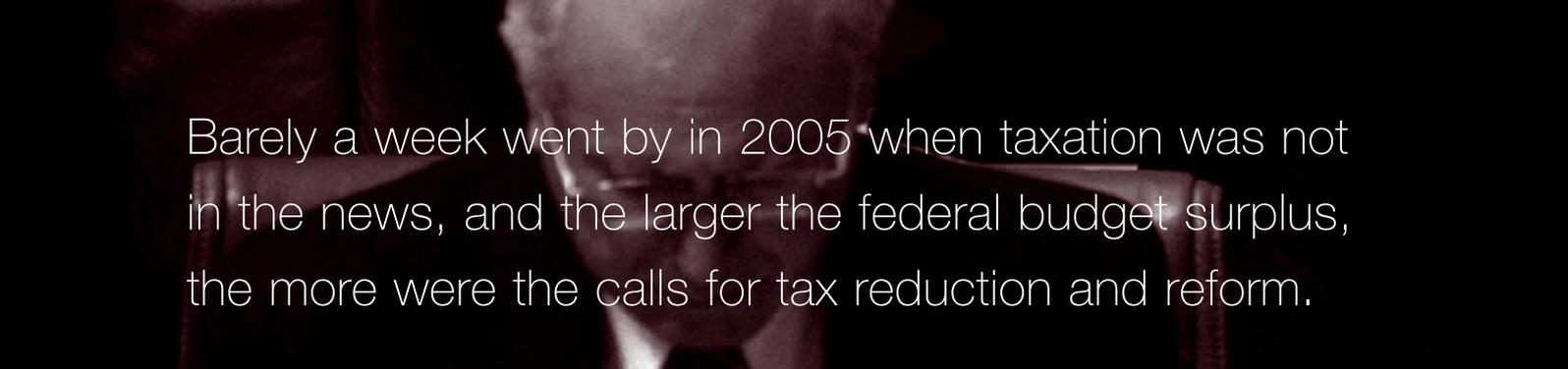


Figure 4: Satisfaction–dissatisfaction with the Leader of the Opposition





Barely a week went by in 2005 when taxation was not in the news, and the larger the federal budget surplus, the more were the calls for tax reduction and reform.

sedition clauses. A Senate committee late in 2005 reflected all these concerns and proposed amendments, some of which were also pressed in the coalition caucus room. Basically, the same debate had occurred in Australia as in the United Kingdom over similar measures – that is, the trade-off between national security and civil liberties – but whereas Tony Blair had lost the support of his own caucus and then a key parliamentary vote on the detention time limits proposed, John Howard accommodated most, though not all, of the suggested changes and avoided any such backlash.

Australia's expanding bilateral *diplomatic and trade links* and potential agreements saw Foreign Minister Alexander Downer and Trade Minister Mark Vaile (who seamlessly took over as leader of the National Party and deputy prime minister following the stepping down of John Anderson during the year) travel overseas on many missions. The prime minister was considerably engaged as well. When a number of Australians were convicted of drug offences in Asian countries the government came under severe pressure to provide them with assistance and to take stern diplomatic and legal action against these countries. Interestingly, Australian public opinion on these matters remained almost evenly divided.

Other international issues that demanded considerable attention during the year included refugees, asylum seekers, incidents of wrongful detention and deportation, climate change and avian flu. Australia made major contributions in drafting international instruments in anti-doping in sport (Australia established its own body to police anti-doping at the end of 2005) and bioethics, and became involved in the debate on a controversial international convention on cultural diversity whose parameters also overlap with World Trade Organization (WTO) trade agreements. (Is a film an item of culture or an economic commodity, and if it is both which international body should oversee its identity and protection?)

The *multilateral agenda* was also jam-packed during 2005, with Australia playing its most active role in many forums. At the United Nations (UN) leaders' summit to celebrate the sixtieth anniversary of the organisation, Prime Minister Howard cast doubt on the value of the UN during his speech. He

also joined the call for more reform of the organisation, which had experienced the revelation of a number of scandals in its management and finances, including the Oil for Food Programme in Iraq. Other key multilateral forums where Australia played a leading role included the Pacific Forum, the Commonwealth Heads of Government Meeting and the WTO, where Australia led the fight to save the Doha round, and APEC, where Australia, in cohort with the United States in particular, led a push to have Europe match the tariff reduction on offer from the United States – an unprecedented development that met with some success. For the first time Australia was invited to attend the East Asia Summit, albeit after being diplomatically obliged to sign the Treaty of Amity and Cooperation (Australia complied, with some qualifications).

Key economic issues

Barely a week went by in 2005 when *taxation* was not in the news, and the larger the federal budget surplus, the more were the calls for tax reduction and reform. Government and Opposition backbenchers alike, and the leader of the National Party, proposed new tax regimes, as did the major business groups. So too did the welfare bodies when the issue of the interface of the tax and welfare payments systems arose, in the context of the government's efforts to move people from welfare to work. Indeed, some convincing figures were provided by these bodies to show that certain welfare recipients would receive less on a net basis by returning to employment under the proposed regimes.

Treasurer Peter Costello had delivered some tax cuts in the budget, which Labor had opposed because they saw them as not benefiting lower income earners enough and focusing too much on higher earners. This had been an agonising decision that split the party because many caucus members were worried that Labor would assume the mantle of being opposed to lower taxes. Right to the end of 2005 Peter Costello refused to respond to calls for further tax reform, his only gesture being to have the Treasury cost various proposals that had been advanced, proving that they would be more expensive than had been claimed. But he was not so reticent in pressuring state governments to reduce their tax rates when it was revealed that escalating



property values and other consumer spending was filling state coffers to higher levels than anticipated. The prime minister was not so reluctant to embrace the issue and expressed the opinion, towards the end of the year, that Australia's taxation was too high and he would hope to see it lower in 2006, with all Australians benefiting from a lower tax burden.

The steamiest issue of the year was *workplace relations*. Clearly the government was caught on the back foot by the unions, who had anticipated the threat that would arise when the government took control of the Senate mid-year. The underlying reason for such vehement union action is not well understood, and was not well explained in the media. It is because the government's intended reforms were a direct challenge to the very future of the trade union movement, since they aimed to replace collective bargaining with individual workplace agreements, abolish state-based industrial relations commissions that are the main gathering place for the flexing of union muscle, take away some union rights on the shop floor, and directly

The steamiest issue of the year was *workplace relations*. Clearly the government was caught on the back foot by the unions, who had anticipated the threat that would arise when the government took control of the Senate mid-year.

impinge on union democracy through the imposition of ballots before industrial action.

Given that this matter had lain for some time at the heart of the government's (and John Howard's) political and economic agenda, and that it radically changed the whole philosophical base of industrial relations as originally espoused by Justice Henry Higgins in 1907 in his "sufficient" or "basic wage judgement", it is astounding that the government was so ill-prepared for the union attack. Moreover,

the legislation itself was very slow in the making and extremely complex. There were actually many months when no cabinet minister except two were allowed to make any public comment on the matter at all, creating the impression of a policy vacuum. This allowed the unions to exploit workers' fears and insecurities because the government was not able to assure working Australians, simply and convincingly, that their jobs and conditions were safe.

The Labor Opposition had been late in exploiting the issue as well, but quickly jumped on the bandwagon addressing large public rallies and attempting to maul the government in parliament. In response the government mounted an astonishing publicity blitz, which in no way addressed the key practical questions and concerns, and insecurities that had been raised, but rather extolled rhetorically about the reforms being good for the economy and the competitiveness of the nation. In fact the advertising campaign simply exacerbated the public concerns, as did the treasurer's refusal to release all Treasury costings on the claimed benefits of the measures, and the ill-timed calls from the OECD for the reforms to be introduced as quickly as possible. It was one of the greatest communication bungles seen from a government in recent times as testified by the immediate hit they, and the prime minister himself, took in the polls. Even the government's own backbench raised concerns, especially the Queensland National Party senators and their state colleagues, who joined Labor in the state parliament to oppose many of the measures. In the end they won some concessions from the prime minister to see the legislation pass through the Senate after very hasty scrutiny from a Senate committee and repeated application of the guillotine.

Despite considerable debate in recent times, and severe warnings from the business sector, the nation's *infrastructure* continued to crumble. Throughout 2005 this became particularly manifest in many of Australia's ports, which were clogged and retarding exports; in the electricity networks, many of which collapsed under loads that had not been properly anticipated; through inadequate road and rail systems unable to handle growth in traffic; and in the continuing serious situation of inadequate water storage, poor reticulation and over-



consumption. The cause of this malaise gradually became apparent and consisted of a melange of inadequate government funding; incompetent handling of public–private partnerships (PPPs); squabbling over funding and responsibility between federal, state and local governments; state governments meddling in their government-owned corporations (especially extracting high dividends);

In retrospect, nobody should have assumed that the sale of the government's half of Australia's largest company and icon would be easy. However, the twists and turns of the process are truly unprecedented ...

and poor relations between infrastructure providers (both government and privatised) and the regulatory bodies who did not seem to appreciate the consequences their pricing decisions were having in retarding investment for the necessary infrastructure improvements. The Commonwealth government continued to offer no taxation incentive for the greater use of PPPs, and state governments took markedly different and confusing positions on their use at different times.

By the end of the year the legislative parameters for the *sale of Telstra* had been put in place, albeit once again after compromises to placate the National Party backbench, especially over the standards of services in the bush. Over \$3 billion were set aside for this purpose. However, the matter really remained a work in progress, and the timing of the sale and its dimension are unclear despite the appointment of the sale merchants. In retrospect, nobody should have assumed that the sale of the government's half of Australia's largest company and icon would be easy. However, the twists and turns of the process are truly unprecedented, featuring constant battles between Telstra and its regulators, especially the ACCC, and the appointment of a new CEO who almost immediately entered into battles

with the government. The release of his reform plan also raised hackles in all political parties, involving as it did the sacking of thousands of workers, changing the modalities of delivery of services, seemingly reducing access of competitors to the basic network, and issuing dire predictions about the loss of profitability of the company. There is also some lingering lack of clarity over any continued direct role of intervention for the minister and the department. All this before the sale of the remaining government shares, thereby depressing the share price substantially – further exacerbated by figures released at the end of 2005 which revealed Australians were giving up their fixed-land lines and switching to mobiles.

To confuse matters even more the government raised the possibility that the Future Fund, to be created from the proceeds from the sale of Telstra, might invest much of its money in the fully privatised Telstra, while assuring investors that it would not take an interfering role. Indeed, there has been much confusion over the nature and direction of this fund, even after the passing of enabling legislation late in 2005. All that seems to be known is that its chairman is now appointed and that the fund will aim to underpin fully funded future superannuation and entitlement pay-outs for Commonwealth public servants, and that it will be configured on the Reserve Bank model. The treasurer appears to be able to issue directions/guidelines over its investment strategy, including the proportion of funds to be invested offshore. One could be forgiven for contemplating that such a Future Fund, so named, might also invest in the nation's infrastructure, or in human resources to alleviate the national *skills shortage* that was a prominent issue of 2005 but seemed to receive only scant attention.

The fracas over Telstra overshadowed a more general concern throughout the year regarding *regulation and red tape*. On the one hand the government accepted the need for tougher regulatory regimes and flagged the strengthening of the powers of the ACCC (including jail terms for executives), and also for ASIC and the media regulator ACMA. On the other hand the government created a taskforce under the chairmanship of Gary Banks, head of the Productivity Commission, to review and reduce red tape. The specific issue of regulation with



privatisation arose frequently in 2005, predominantly during the stoushes between the ACCC and Telstra, but a major clash seemed looming at the end of the year when the ACCC took Sydney Airport to task for “misusing its market power”.

Indigenous affairs

The government, with the support of Labor, abolished ATSIC during 2005. It promised to establish new funding arrangements for indigenous communities, including state/territory service provision. Not long after, some indigenous health grants were given. The government next announced its intention to change the native title regime to give such title to communities rather than to land councils as before. This would be in exchange for commitments entered into by indigenous communities on a range of matters relating to development, hygiene, school attendance, discipline and so on. Many communities welcomed this shared responsibility initiative. Prominent indigenous leader Noel Pearson also welcomed this direction in government policy and, among other ideas, suggested that more indigenous young people should attend boarding schools. Minister Senator Vanstone, towards the end of 2005, stirred the debate with her view that sustaining the large number of small remote indigenous communities was no longer viable, and many were in danger of becoming “cultural museums”.

Federal–state relations

During 2005 the centre of gravity in the federation continued to move towards Canberra. Across a wide range of portfolios, Commonwealth ministers forced their state counterparts to accept their terms or forfeit funding. This was true of the key policy forum itself; namely, COAG, which the prime minister gives little reverence these days. A new Competition Council was put on the drawing board and Victorian Premier Steve Bracks proposed a new National Reform Agenda, although it seemed to disappear as fast as it had appeared. Meanwhile, the Productivity Commission continued a major consideration of the impact of federalism in several areas of the public sector.

Other key policy arenas where centralisation was very much in evidence follow.

Industrial relations

As outlined, the new legislation will override state tribunals and many state-based conditions. The states all fought the national legislation and some promised to challenge it in the High Court. Interestingly, the ACTU instructed unions to avoid state rights’ arguments in their campaign and concentrate solely on workers’ rights.

GST

Peter Costello threatened to reduce the flow of GST revenue to the states if they did not lower their own state taxation, and specified the particular business taxes he wanted them to eliminate.

Infrastructure

The new national energy regulation regime was finally accepted by the states. The prime minister hinted that the Commonwealth would take over the ports if the states could not manage them more efficiently. Similar comments were made by other Commonwealth ministers about railways, and Peter Costello took a comparable swipe at the states re water management and infrastructure, especially after the debacle over tunnels in Sydney and some PPP projects in Victoria. For their part the states contend that the Commonwealth’s Auslink program is camouflage designed to shift costs back to the states.



State premiers and the PM meet in Canberra to discuss terrorism. Left to right; John Stanhope, Peter Beattie, Morris Iemma, John Howard and Steve Bracks.

CHRIS LANE/Fairfaxphotos



Across a wide range of portfolios, Commonwealth ministers forced their state counterparts to accept their terms or forfeit their funding.

The NSW premier made an announcement out of left field towards the end of the year that his state would sell one-third of its interest in the iconic Snowy Mountains Scheme; Peter Costello immediately commended the move and flagged commensurate Commonwealth action, putting pressure on Victorian Premier Steve Bracks. However, Bracks was not moved and several environmental groups also expressed opposition.

Health

Minister Tony Abbott had a somewhat tempestuous personal year and was very prominent in his portfolio. The year included several scrapes with states over hospital funding and management, drugs, doctor and nursing shortages, therapeutic cloning, abortion, and the need for a national health body. While Abbott favours the sale of Medibank Private, the prime minister says he is not so inclined.

The debate surrounding Minister Abbott's decision on legalising/registering the contentious abortion pill RU 486 looks like going to a conscience vote via a private member's bill in the national parliament, following the prime minister's compromise with minor parties, some of the medical profession and some state governments. At the end of 2005 John Howard also signalled that the Commonwealth would take a much stronger role to address the serious situation in mental health in Australia, including funding and some functional involvement.

Education and training

Minister Brendan Nelson had a very high profile year. Apart from shaking up universities and their funding, to which they are becoming somewhat accustomed, he also ventured deeply into state government fields with proposals for national literacy tests at various levels of schooling, including preschool, returning to basics in reading, including the use of phonics, a national leaving and common Year 12 certificate, requirements for greater accountability and reporting of school results, reforms to teacher training, and a proposed national standards agency.

His efforts to abolish compulsory student unionism seemed destined to be thwarted by National Party senators unless he found ways to

compensate universities, particularly regional ones, for the costs of services, including sporting facilities, that the fees used to go towards. This he finally did with a designated fund for universities experiencing hardship in providing such services, but still not to the satisfaction of Queensland National Party Senator Barnaby Joyce. So the legislation seemed doomed until Family First Senator Stephen Fielding supported the amended legislation, citing his opposition to the principle of compulsory student unionism. Universities will not be allowed to collect compulsory student fees after 1 July 2006. In vocational education and training, despite the usual huffing and puffing from the states who provide the bulk of the government funding, they all collapsed and accepted Minister Gary Hargreave's offer of Commonwealth funding with its associated conditions for their TAFE systems.

Terrorism and security

The states agreed, some with reluctance, to implement the Commonwealth's wishes for the new security regime, although the "shoot to kill" provisions required clarification and modification. The ACT chief minister broke the agreement to keep details of the counter-terrorism Bill secret, placing it on his web site.

Uranium

Relations with the Northern Territory and other governments became strained when talk ensued over location of a uranium dump, and the opening of new uranium mines. By the end of 2005 the government had passed legislation to establish a dump in the Northern Territory, despite former election promises to the contrary.

Climate change

This created some inter-governmental tension during the year with the Commonwealth government continuing to refuse to sign the Kyoto agreement. Several states went their own way on this. At the end of the year Minister Senator Ian Campbell announced that Australia would join a number of other countries to pursue a post-Kyoto strategy, given the evidence that the Kyoto global emission target reductions were not going to be met.



Governance

In 2005 a number of issues concerned Australia's system of governance. Many arose out of the now unfamiliar situation where the government has majorities in both the House of Representatives and the Senate, especially in the tight situation where the majority is only one. The actions of National Party Senator Barnaby Joyce in particular, in crossing the floor to vote against some government legislation, and the resultant sympathy and hostility he has received from Coalition colleagues, raises the question of whether elected members of parliament owe their first duty to the party (as claimed by the prime minister) or to their constituents (as claimed

The actions of National Party Senator Barnaby Joyce in particular ... raises the question of whether elected members of parliament owe their first duty to the party (as claimed by the prime minister) or to their constituents (as claimed by Senator Joyce and some of his colleagues).

by Senator Joyce and some of his colleagues). This debate has of course been occurring in democracies, including Westminster systems, for some centuries (particularly at the instigation of Edmund Burke). Add to that the support from the prime minister for conscience votes on some issues and your friendly local member of parliament is back in the spotlight.

The role of the Senate has also come into focus in this scenario. Its role as a House of Review cannot be effective if it experiences the same tactics as in the Lower House, especially repeated guillotining of debates and lack of time to give proper consideration to the reports of Senate committees on matters of national importance. The Senate's role as a states'

house has seen something of a revival with linkages between state governments and senators, including the spectacle of eight state and territory ministers appearing before a Senate committee (workplace relations legislation). This is unprecedented in Australian history, and state parliaments passed legislation comparable with that in the Senate, and state party machines recommended how Senators would vote.

During the year Premier Rann foreshadowed a move to abolish the South Australian Upper House. His neighbour Premier Gallop failed to gain control of the West Australian Upper House at the 2005 election and the WA Labor government will no doubt be frustrated by it. So the focus on the role of the Upper Houses will not be confined to the Australian Senate in the next few years.

Issues of national and state government spending on advertising, and the veil of secrecy that is descending on public sector activity in many Australian jurisdictions, arose often during the year. So too did the inability of corporatised bodies to keep at "arms length" from their owners, and also the impasse between regulators and the government-owned bodies they were regulating.

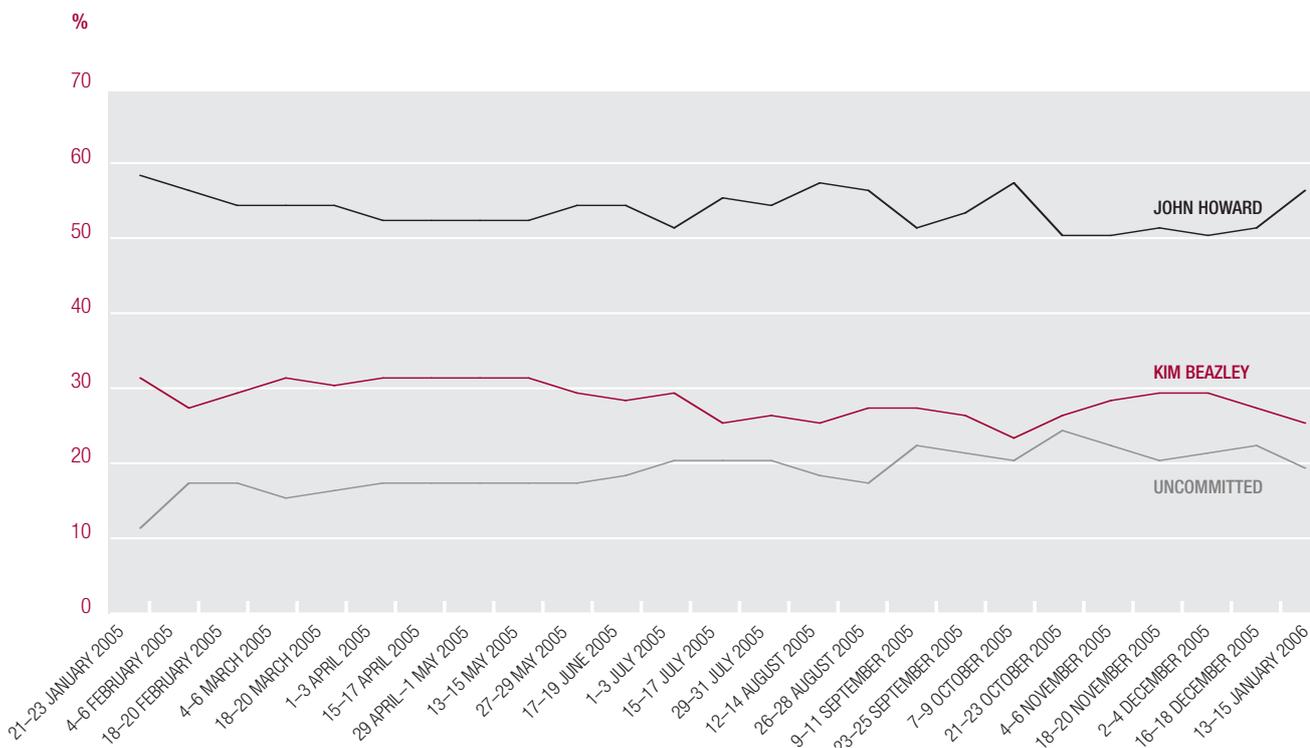
The integrity and appropriateness of appointees to government statutory bodies, particularly the Reserve Bank of Australia, was a recurrent theme. This also gave rise to questions about whether there should be a better geographical spread of appointees and whether it was appropriate for the secretary to the Commonwealth Treasury to continue to be a member of the Board.

The government announced the abolition of the Board of Austrade to bring its control closer to the bureaucracy. The announcement was in line with the recommendations of the erstwhile Uhrig Report on governance of such government bodies. The government says that one-third of the bodies identified are ready to be similarly reformed, a move which has alarmed many industry bodies that do not want to see arenas requiring business expertise brought under the control of the public service.

Clashes over national security/terrorism legislation revived the debate on the need for a bill of rights for Australia and the Victorian attorney-general signalled that his state would introduce a bill of rights. Two other states expressed similar interest but the Victorian



Figure 5: Preferred Prime Minister: John Howard and Kim Beazley



model seems to be fairly insubstantial to date. The thirtieth anniversary of the Whitlam government’s dismissal revived discussion over a republic and the need to amend the Constitution regarding the Senate’s power to block supply.

Australia’s national electoral laws have been changed. Rolls will now close the day the election is announced, prisoners will be denied the right to vote, and the threshold for disclosure of donations to political parties will be lifted to \$10,000 with up to \$1500 being tax deductible.

Leadership

Of course the hottest topic of 2005 was the prime minister himself, and whether he would step down in 2006 and hand over to Treasurer Peter Costello. Journalists poured over entrails, laid traps, seized on phrases and body language, and performed all manner of psychological guessing games to divine the answer. The issue became really hot at the end of

the year with Peter Costello becoming embroiled in controversy over the appointment of a member of the Reserve Bank Board who had been involved in taxation charges and who subsequently resigned. During the heat of this issue the treasurer confirmed that he would not be challenging for the leadership and would definitely be delivering the 2006 Budget.

John Howard completed a successful year on almost all fronts, internationally and domestically, including the passing of some of his own most cherished measures. The mishandling of the workplace relations legislation had seen his approval rating fall slightly, but, at year’s end, his own standing in the polls remained strong (see Figure 5). The general agreement among aficionados was that a key clue to the timing of any leadership change would be whether Howard reshuffled his Cabinet late in 2005 or early in 2006, and if so who would be placed in key positions for leadership and deputy leadership succession.



2006 in prospect

The anticipated Cabinet reshuffle occurred late in January, triggered by the resignation of Defence Minister Robert Hill. The changes were fairly incremental but the main issue was the reduction of National Party junior ministers occurring hot on the heels of the defection of a Victorian National Party senator to the Liberal Party. This seemed to present an omen that the government could expect more maverick behaviour from its Coalition partner especially in the delicately balanced Senate. In policy terms the reshuffle signalled business as usual on the government's reform agenda; especially the mainstreaming of indigenous policy and service delivery, continuation of the thrusts in education and training, and a greater role for the Commonwealth in water policy.

The issues of 2005 continue

There is no doubt that many of the issues of 2005 will continue through to the new year.

Terrorism and all its insidious manifestations appear to be with us for the long term and continuous domestic responses will be called for. Australian troops seem destined to remain in Iraq for 2006.

With an increasing pace of globalisation, Australia will be enmeshed in constant trade and diplomatic engagements to protect our national interest, and our leaders will maintain a high visibility and strong presence in associated forums forging alliances. Indeed, the matter of protecting Qantas on the Pacific route will be an early test case with the prime minister announcing ambivalent positions during the past year; once to favour a merger with Singapore Airlines, but later to say that the "national interest" should be paramount in the granting of rights to fly the Pacific.

In relation to domestic economic issues it is instructive to recall the four main issues which the Business Council of Australia claims are the major current concerns of the business sector:

- lower taxation
- cutting red tape
- infrastructure renewal
- workplace reform.

Lower taxation

The big news in 2006 is that it is now official – the Coalition's main priority is not tax cuts, it is targeting inflation to keep interest rates low. Peter Costello said it, and Nick Minchin, while advocating the abolition of the 15 per cent Superannuation Contribution Levy, admitted it. Politically, this is logical given that an interest rate rise can wipe out tax cuts, especially in the mortgage belts in outer suburbia where the last four elections have been won. It becomes doubly crucial for the government, since the Coalition claimed at the last election that it was superior at controlling interest rates. Labor is watching this claim like a hawk. In Australia, the political test of good government used once to be low unemployment. Then it became low inflation, and then low debt and a AAA credit rating; today it is low interest rates. Taxation policy is now subservient to monetary policy. The Reserve Bank is King and everything must be done to keep inflation low so as not to tempt the Bank to raise interest rates. It is as if opinion polls were now positively correlated with interest rate movements. The message in all this is not to expect dramatic taxation reform from this government.

However, taxation reform will remain firmly on the agenda in 2006 and right through to the next election in 2007. This will be particularly so, given looming large budget surpluses, despite the fact that the sale price for Telstra will not bring in as much revenue as had been hoped. It is yet to be seen whether the government will sanction the reform plan for Telstra put forward by the new CEO Sol Trujillo. Also, if he and his Board continue their contretemps with regulators, the sale price may fall even further. But the budget surplus is very robust and Peter Costello and Finance Minister Nick Minchin will not be able to withstand pressure to lower taxation levels for much longer. Indeed, both John Howard and Mark Vaile have signalled that tax reform is on their agenda. So too have a plethora of commentators in addition to various government backbenchers and the Opposition with a range of proposed measures. Peter Costello has so far only signalled measures to help families in the \$40,000 to 50,000 income range, which is also a reminder that the government needs to keep the Family First Party on side given that it cannot always depend on its own senators to maintain its slim majority in that House. Of course, in a non-election



The battle concerning workplace relations is far from over.

year fundamental changes rather than just incremental changes can be considered, but the political reality is that all income groups will have to benefit. National elections are still won or lost in the outer suburban mortgage belts, so middle income earners are important. So too are the so-called “Howard battlers”, the lower income, mainly blue-collar workers who appear to regard the Coalition as best placed to sustain their living standards, but whom Labor must attract back to its fold if it is to win. The government, and Peter Costello in particular, may want to keep some tax cuts in reserve for the 2007 Budget in an election year.

Telstra

There remains the possibility of a significant political backlash against the government if the sale of Telstra T3 does not bring a reasonable return and maintain a healthy share price. This has been the international experience with the privatisation of telecommunications carriers, because the creation of an enormous number of small shareholders creates a very large pool of potentially disappointed voters at the boardroom and at the national elections. Meanwhile, the mysterious Future Fund is due to be revealed in more detail in 2006 and, given its enormous scale, its design and modus operandi will be of vital importance to financial markets and the groupies who inhabit them. The government will need to give much more clarification of intentions early in the new year.

Cutting red tape

The Banks Inquiry into red tape will report in 2006 and should result in the elimination and streamlining of a fair amount of the regulatory burden on business. But the bigger picture concerning the major regulatory bodies seems destined to continue to play out its tensions again in 2006. The ACCC and ASIC, and the ATO for that matter, will continue to press for greater powers in their domains even though there is much talk from them about streamlining their procedures including appeals. An important sign of the government’s general direction on regulation will come when it has to adjudicate, early in 2006, on the stoush between the ACCC and Telstra, especially on pricing. Although Peter Costello has said it should

be a matter for the ACCC, the Communications Minister Helen Coonan has been less forthcoming with her views. This will create tension, given the debt that the government owes to the top end of town for its strong continuing support of the industrial relations reforms.

Infrastructure

Infrastructure renewal will continue to be an issue, mainly for state governments who appear to have been more frightened of their credit ratings than the backlash over failure to deliver basic services. This priority will be reversed in 2006 as they realise the political fallout from failure to plan properly to match growth in demand for roads, tunnels, ports, electricity and water, as well as social infrastructure. The use of PPPs seems destined to increase, and those states that for political or other reasons eschew this mode will be forced to accept greater public borrowing and consequent higher debt levels. The Commonwealth has announced that for all its projects worth over \$100 million, the use of a PPP must now be explored. The AAA rating will no longer, of itself, convey sound economic management, especially if there are traffic and port gridlocks, failed electricity supplies and constant increases in prices for water. The future of the Snowy Mountains Scheme remains in abeyance pending agreement on ownership between the Commonwealth and the states concerned.

Workplace relations

The battle concerning workplace relations is far from over. Most, if not all, the state and territory governments will mount an immediate challenge to the national legislation, and this could well be a protracted affair, given the complexity of constitutional and legal provisions that have historically abounded in industrial relations law despite the Commonwealth’s reliance on corporations law. The Coalition pundits believe that the issue will go away by the time of the next election because most Australians will experience no change to their working conditions (it is significant that just before the vote the government had watered down some of the “no disadvantage” test conditions). However, the unions have vowed to continue their fight with the Howard government, a threat to be taken seriously since they are fighting for their lives as these figures demonstrate:



TABLE 1: UNION MEMBERSHIP IN AUSTRALIA'S WORKFORCE

AUSTRALIA'S TOTAL WORKFORCE AGED 14 +	%
Member of a trade union	22
– want to be a member	19
– don't want to be a member	3
Non-union member	77
– want to be a member	14
– don't want to be a member	63
Can't say	1
TOTAL	100

SOURCE: MORGAN POLL: 12–13 OCTOBER AND 2–3 NOVEMBER 2005

Not surprisingly the unions have announced a relentless campaign against the government in all marginal seats through to the 2007 election.

The government has decided to fast track the creation of the new Fair Pay Commission, before the rest of the package, to prevent unions lodging dual claims before national and state jurisdictions, and its first review is due to be completed by Spring 2006.

Federal–state relations

The federation will continue to centralise in 2006 as the Howard government further enjoys its policy dominance and continues to regard state governments as service deliverers rather than policy partners. Elections are due in South Australia, Victoria and Tasmania, and a glance at the figures reveals that Labor is likely to retain office in all those states. The situation is not so rosy for the Labor governments in Queensland and NSW. Both are due for elections in 2007 and running neck-and-neck with the coalitions in the late 2005 polls. Very poor performance in Queensland means the Beattie government is due for a drubbing, given its gross mismanagement and lack of accountability across many areas, especially health and infrastructure, and interference in its government-owned corporations. Labor was also not looking flash in NSW after the departure of Bob Carr in 2005, although the turmoil in the Liberal Party, including the loss of by-elections after the demise of leader John Brogden, seemed to revive the prospects of new Premier Morris Iemma until ugly riots in and around Sydney, which were

badly handled by the government. In all of the Australian states and territories the Coalition parties just do not seem to be able to get their acts together and provide leadership and credible alternative governments. If all the state and territories remain Labor for the two years leading up to the next national election, which appears likely, expect to see accelerated controls from Canberra over the states and territories in all the functional areas that were battle scenes in 2005 and more – plus even the subsuming of some of their functions. It may be the Senate rather than the Premiers' Conferences where the states' rights arguments are most often played out.

The big issues/battles in 2006, which have been flagged by the prime minister or treasurer and are up for discussion at the first COAG meeting of 2006, follow.

Health

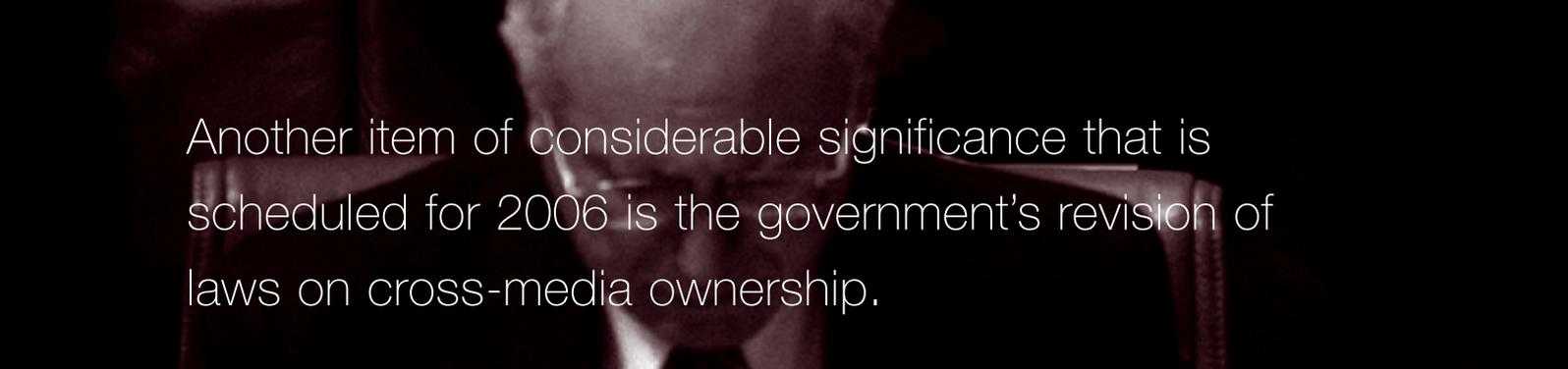
The Intergovernmental Agreement is up for consideration.

Mental health

Mental health has been singled out for more Commonwealth involvement. The area was given very high prominence by the surprise resignation of Western Australian Premier Geoff Gallop early in 2006 as he announced that he had been suffering from depression for some time and felt he should stand down. His stance brought accolades from across the nation, not only for his outstanding contribution in government and politics, but also for making his situation public and thereby giving encouragement to others similarly afflicted.

Education and training

A national registration of trades to help address the skills shortage is to be addressed. New minister Julie Bishop has been handed two stiff challenges, one by the Governor-General who wants all Australians to know the second verse of the national anthem, and one from the prime minister who wants more emphasis in school curriculum on history, especially Australian history, as well as a root and branch reform of the way history is taught to change what he calls the current "fragmented stew" of post modernism. More specifically John Howard wants students to know the milestones and their significance in the growth of Australian democracy.



Another item of considerable significance that is scheduled for 2006 is the government's revision of laws on cross-media ownership.

Infrastructure

This includes the deregulation of export ports.

Competition policy

Peter Costello believes that the next iteration of competition policy should be confined to water, gas and electricity, but the Productivity Commission and OECD want it extended to health and education.

Red tape is being targeted as well, and the Commonwealth is focusing on state regulation of universities, product safety, government contracts and exports.

Newer and resurgent issues

The theme of balance between work and family life will gain even more momentum in 2006. It was often mentioned but seldom crystallised in 2005. Apparently, many people seem to regard the achievement of this balance, which is rarely defined, as the responsibility of governments and employers. Consequently, issues such as superannuation accessibility, flexible working hours, childcare places, paid leave, the interface of the taxation and welfare system, and income tax splitting will all have a much higher profile than hitherto. Governments, both Commonwealth and state, will be constantly tinkering with these provisions for some time to come.

Early in 2006 Peter Costello made a strong case for more government assistance to families through tax reform, child care and education, all of which will be music to the ears of the Family First Party which is important to the government in the Senate and with whom the government entered a loose pact after the 2004 election, especially concerning the commissioning of family impact statements for new policy initiatives.

The skills crisis in Australia will escalate in 2006 as the policy settings are not in place to address this. To date we have seen only tinkering with funding for the vocational education and training systems and confrontations with the states, some loosening of the apprenticeship and trainee requirements, creation of some ill-defined new Commonwealth colleges, talk of the national registration of tradespeople, and liberalisation on the importation of skilled migrants. A much more fundamental response will be called for and it is instructive that Kim Beazley has already signalled that this will

be one of the key planks of Labor's new policy framework in 2006.

Another item of considerable significance that is scheduled for 2006 is the government's revision of laws on cross-media ownership. With government control of the Senate, the scenario changes considerably from the previous situation where the minority parties, especially the Australian Democrats, played a significant role. This matter is also related to telecommunications and cultural policies, given that the convergence of media and communications is proceeding apace. The National Party will no doubt focus on diversity in regional areas and will join the lone Family First Senator in pressing for regulation of standards in publishing and broadcasting. Minister Helen Coonan may have to revisit the basic parameters that emerged during 2005 to take account of the shift in the balance of power and achieve an outcome acceptable to the new powerbrokers within the Coalition's own party room. From now until the next election any new policy initiative in this country, whatever the field of government activity, will not be able to reduce standards or choice in the bush.

Other health related issues will surface, including the reduction of the Medicare and PBS safety nets in the middle of 2006, the possible sale of Medibank Private, the loosening of the free trade agreement with the US to tighten up on the sale of generic drugs, and the conscience vote on the abortion drug RU 486.

Climate change has taken a new turn following Australia's hosting of an international summit of six major countries early in 2006. It saw an acceptance of continued reliance on fossil fuels but a commitment to pursue technological solutions to reduce emissions. Thus an alternate path to Kyoto has been established which the Howard government will follow in concert with like-minded countries. The Greens are naturally opposed but the Labor Party suffered an embarrassing situation when one of its key shadow ministers supported the Coalition's position sparking a fiery response from many other front benchers including the deputy leader.

During the summit the future of nuclear energy was debated and in the process it became clear that China will become a major customer for Australian uranium, provided the safeguards are met. This issue too may divide the Labor Party.



Future directions for the major parties

The context

The middle year of an election cycle is an opportune time for all parties to reflect and reshape policy settings and approaches. For the Coalition it is also the middle year of their fourth term, where they have to decide whether to keep up the reform momentum or rest on their laurels. At the 2004 election the government enjoyed a 1.8 per cent national swing for a net gain of five seats, but it is still a tight contest and Labor remains well within striking distance.

For both the Coalition and Labor the starting point is that Australia is changing. "Aspirational voters" is the often-heard term to describe the modern electorate, as even two-income families

"Aspirational voters" is the often-heard term to describe the modern electorate, as even two-income families chase the escalating prices of housing, food and petrol, while paying off a mortgage and encountering the built-in disincentive of the taxation system ...

chase the escalating prices of housing, food and petrol, while paying off a mortgage and encountering the built-in disincentive of the taxation system, which is designed to exploit bracket creep. Paradoxically, Australia has a multicultural society coexisting with a strong emphasis on individualism. The economic climate and global situation have heightened feelings of insecurity. Life expectancy is increasing and people are working

longer, often on a part-time basis as they can now draw down some of their superannuation. Conservative values appear to be making a comeback and religious groups are having some renewed political influence, so much so that political parties are careful to ensure that their opponents do not monopolise this terrain. Membership of organisations, including trade unions, is on the wane. Despite the clear bursts of generosity of which Australians are capable in crises situations, for the most part people are looking out for themselves more, and are very cynical of politicians and their promises and what the political system will or can deliver.

In terms of the electorate's engagement with the major parties, the Australian political scenario has been jammed for some years. The primary vote seesaws and while Labor often takes the lead in two-party preferred polling, the Coalition has now won elections four times when the voters have been forced to confront the choices. The Coalition has always been seen as best to handle the economy, taxation, interest rates, defence and security, while Labor is considered best to handle education, health, welfare and social issues, and industrial relations. Labor draws its main support from those under 45 years and the Coalition's strongest support is from those over this age. The aged are rusted on to the Coalition and the young are rusted on to Labor. Labor has still lost many of the lower income mainly blue-collar workers who drifted to the Coalition. The party is also weakest outside of NSW and Victoria, and at the next federal election, as a result of redistribution following population growth, one NSW seat will be shifted to Queensland, Labor's weakest state.

In terms of tactics, the Australian Election Study 2004, which was published last year, has some very instructive messages for the major parties (see Box 1).

Whither Labor?

The Labor Party seems very unlikely to have yet another leadership change before the next election. As a result, 2006 will be a test of Kim Beazley's capacity to address the evident internal fallout between factions nationally, and especially in NSW and Victoria, the often obvious lack of collaboration

VOTERS

BOX 1

Australian voters

- Some 14 per cent would not vote if it were not compulsory
- About 28 per cent do not really care who wins the election
- When do people decide how they will vote?
 - A long time before the election . . . 47 per cent
 - A few weeks ago 14 per cent
 - When the election was called 7 per cent
 - In the first weeks of the campaign 10 per cent
 - A few days before the election . . . 14 per cent
 - On election day 9 per cent
- What influences their vote?
 - Leaders 19 per cent
 - Policy issues 49 per cent
 - Candidate 7 per cent
 - Parties taken as a whole 26 per cent
- Some 22 per cent believe there is really not much difference in the parties
- About 75 per cent do not think of changing their vote during the election campaign

SOURCE: AUSTRALIAN SOCIAL SCIENCE DATA ARCHIVE JULY 2005



between the national caucus and state Labor premiers and governments, and the gap between Labor and the business community, especially as Labor is forced to take the union line in the divisive ongoing reform of workplace relations.

Labor is obviously on strong consistent ground with its education and training policies, health policies (that still need greater clarification), and welfare policies, as well as its support for multilateralism in international relations. There seems little need for any fundamental change here; perhaps some fine-tuning, less rancour about the private education and health sectors, and no more hair-brained schemes.

The difficult topics for the party are whether to remain a small target with many bipartisan stances, or offer radically alternative policies on different value premises from the Coalition, as many in the party have been demanding. (A decision also has to be made on whether to continue courting Green preferences.) These issues include domestic policy issues of taxation, uranium mining, the environment including climate change, government ownership and public provision, and PPPs. Will the party return to the market oriented Hawke–Keating era, will it embrace a variation of the Blair Third Way, or is there a home-grown coherent framework that will

allow it to be the same but different in comparison with the coalition? Will it again become the party of ideas for which it was once renown? In the international arena what of the alliance with the United States, the toughness of measures to combat terrorism, the timeframe for engagement in Iraq, and the extent of confrontation with trading partners concerning protection issues, and whether to really regard human rights as more important than trading relationships. When policy stances are finally taken, the party will need to remain united on them and endeavour to avoid a repeat of the fragmentation over taxation and climate change.

Labor needs a circuit-breaker to dent perception of the Coalition (especially if Howard remains leader) and clearly sees industrial relations as the arena for this.

Labor needs a circuit-breaker to dent perception of the Coalition (especially if Howard remains leader) and clearly sees industrial relations as the arena for this. For even when Labor is ahead, the same polls show that the majority of respondents think that the Coalition will win the election. But one circuit-breaker will not be enough. The election study shows that nearly 50 per cent of voters are looking for sound policies and Labor must not be seen as a policy-free zone in areas other than workplace change.

The issue of image arises as well. Most of the Labor front bench are frequently seen as carping and negative, and Labor's alternative policies are unknown in most areas. Kim Beazley comes across in all polls as likeable, caring, understanding, in touch with issues and ordinary people, and trustworthy; although he does not rank as highly in terms of being decisive and strong. But does he really need the image makeover he has promised to toughen up his approach, and would it be necessary in a Costello–Beazley contest, which is a very different proposition from a Howard–Beazley contest?



Opposition Leader Kim Beazley speaking to CEDA in September 2005
PHOTO: PAUL LOVELACE PHOTOGRAPHY

BOX 2:

John Howard

- 66 years of age in July
- 68 years of age at the next election
- 32 years in politics
- Celebrating 10 years as prime minister, second only to Menzies as longest serving Australian PM
- Four successive election wins to his credit
- Long-term policy agenda more or less achieved
- Redefined the philosophy of the Liberal party to become based on four pillars:
 - 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
 - mutual obligation
- Coalition control of both houses of Parliament for the first time for nearly 30 years
- A budget surplus of \$12 billion
- Standing tall on the international stage:
 - strong personal rapport with many world leaders
 - a high profile in international forums
- Polling in 2005 (Newspoll)
 - Better PM: 50–58 per cent
 - Satisfied with his performance: 41–60 per cent
 - Dissatisfied: 28–50 per cent
- Relaxed and comfortable

The Coalition: Howard staying or going, or Costello coming or going?

It is the question of 2006 – will John Howard step down? Consider his position (see Box 2).

Howard has said he will stay as long as the party wants him. In politics that is a code for as long as he can continue to win elections. It is true that there are some signs of fragility in the Liberal Party caucus, which contains impatient ambitious backbenchers and junior ministers. The Senate situation will continue to pose challenges for Coalition unity, especially after the destabilisation caused by the Cabinet reshuffle of January 2006 which created animosity in the National Party backbench. But most

observers have commented on the emergence of a new Howard in recent years as he has often been prepared to compromise his position in order to achieve the essence of the reforms he is pursuing. The war has become more important than each battle and he has finely honed his capacity to discern the difference. This is especially true when confronted with a good argument or when convinced that a fair slice of the population hold to a different opinion and the matter is divisive in the Australian population. The same commentators note his intuitive capacity to read the mind of the average Australian.

By contrast, the heir apparent Peter Costello is of a different mould. He is well known as treasurer and



has delivered ten consecutive federal budgets and has been a key proponent of past tax and company law reform. This aspect of his profile will be higher in 2006 as he assumes the Chair of the G20 Group of financiers and central bankers.

Yet, despite the high profile in economic matters, Costello – the person – is relatively unknown to the Australian electorate. He would need at least 12 months before an election to address this. His elevation would certainly represent a generational change for the Liberal Party. He is still predominantly a dry, but soft on some social issues (some commentators believe he will have to move to the right to become prime minister). He is a republican (which would represent a generation change for the Coalition) and religious practitioner. (In one of the great ironies of Australian politics he holds the seat of Higgins, named after the author of the industrial relations system which Peter Costello of Dollar Sweets fame is enthusiastically dismantling. It would be the supreme irony if this were the issue that brought his government down at the next election, as Labor is fervently hoping.)

There were rumblings about Costello at the end of 2005 due to the Reserve Bank appointment issue but he remains closely associated in the minds of most Australians with the success of the economy. Fortune continues to smile on him since even when the rate of economic growth fell markedly in the latter part of 2005, the rate of employment picked up. As long as the Australian economy performs well, his path to the leadership will be facilitated, although he will need to re-establish his credentials and stances on a broader range of community issues.

A leadership change from Howard to Costello looks likely in 2006, as Howard's personal agenda is largely accomplished and his record is strong, placing his party in good shape. His Australia Day address, delivered by a man who seems relaxed and comfortable, laid out his personal philosophy and the values he sees as the foundation for the future development of the nation. He also knows it is important to give a successor time to become established.

John Howard's Cabinet reshuffle would seem to have constrained Peter Costello for 2006, particularly if he should take over the leadership, but Howard may well have done Costello a favour by sending a message that the Coalition has not ossified, despite the long term of office, and is prepared to regenerate. At any event Costello would be able to contemplate another reshuffle in 2007, although it would have to be a minor one.

The key determinant of the leadership change relates to Costello's style and image. The recent Australian Election Study of voters at the 2004 election painted this picture:

TABLE 2: AUSTRALIAN VOTERS' FEELINGS ABOUT PETER COSTELLO

	%
Like – strongly like	39.0
Neutral	19.2
Dislike – strongly dislike	41.8

Incumbency may help, but clearly there is work to be done if he is to be considered as leader. Tax cuts alone will not do it; Australians believe they are entitled to those anyway.