

A LABO(U)R VISION FOR THE ECONOMY & GOVERNMENT

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Introduction.

The brief provided to us by the organisers sets us quite a task. We are invited to explore a modern vision of the relationship between government and the economy, by reference to an A-Z list of policy areas.

Ten minutes for a comprehensive re-imagining of the social democratic project in a trade exposed and largely deregulated 21st Century economy certainly seems a tad ambitious. To my mind, that's about long enough to throw some rocks in the pond and hope the ripples cause something of interest to happen. So, I intend to ignore my instructions and throw some rocks about.¹

I think it's appropriate to start from a first principles basis, specifically by asking the question – what is the show about? I think our economic goal (past, present and future) can be summarised as follows: to protect and increase the living standards of lower and middle income people. This is a continuous project, not one for a moment in time.

“Rising living standards” trips easily off the tongue but it's a matter of great importance for a number of reasons of which I mention three.

First, it does not apply to our opponents. We do it by design and if it happens under them it's incidental or accidental. For me it is this difference, played out in different ways, that is and always has been the “*bright dividing line in Australian politics*” to which the PM referred earlier this week.² As probably every Labor PM has said, we're on about a society that is both stronger and fairer – rising incomes and shared prosperity.

Second, as an underlying value that also serves as practical guide, it's a solid foundation on which to build a comprehensive agenda for government.

And of course its advantages as a political program are self-evident: the reputation and reality of being the political party that's dedicated to improving people's living standards is invaluable (including having a reservoir of trust on which to draw when difficult decisions are required). Done right, it can draw on a powerful egalitarian instinct that lives on in Australia.³

But how do we translate this into policies? It's important to note the objective was in two parts: “protect” and “increase” and so the solution is in two parts as well. We do it (as we always have) by providing for the collective management of risk. And, we need to do it, as we usually have, by dealing with employment (quality and quantity of jobs) and with the power working people have over their lives.

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The frame of risk.

Jacob Hacker's work on insecurity equates economic risk with a hurricane: capable of striking powerfully, suddenly and tearing apart the lives and property it touches. Hacker chronicles what he calls "the Great Risk Shift", whereby risks previously born by Governments, communities and employers have been shifted onto individual households.⁴

Paul Krugman describes this as "*an economy with no stability, no guarantees that hard work will provide a consistent living, and a constant possibility of being thrown aside simply because you happen to be in the wrong place at the wrong time*".⁵

While care needs to be taken in comparisons with the US, this approach has powerful analytical value for us.

There is no doubt that for too many workers and their families there is a disconnect between their interests and their aspirations and the opportunities the economy in general and the labour market in particular give them. Their real world is one where flexibility is experienced as volatility in income or employment, or disruption to family life and where Government services inadequately plug the gaps.

A key part of the Labor/labour project remains the design and implementation of social insurance models that help households manage evolving risks, and prevent precipitous drops into poverty as a result of illness, disability, pregnancy, retirement or unemployment.

It's not just about cleaning up the mess.

In a depressing recent post, Lane Kenworthy suggests that the "*traditional strategies*" associated with ensuring that the incomes and living standards of the lower half of households (industrial jobs, full employment and collective bargaining) are "*unlikely to work*". In lieu, he suggests a worthy program based around education (as a driver of social mobility), public services (on amenity grounds), a minimum wage (to compress the bottom of the wage distribution), and an earned income tax credit (as a form of de-coupling insurance against stagnant wages).⁶

Although I admire Kenworthy's work, I think his almost exclusive focus on a safety net in this piece is a dead-end. Its adoption would see the labour movement simply tagging along behind the capitalist juggernaut and tending to the trauma left in its wake. A contemporary, activist Labor/labour program isn't about owning the driver's seat either, but it's about more than just cleaning up mess. It's about influencing the course of the juggernaut – setting directions, regulating emissions, ensuring maintenance.

I agree with the US writer Mike Konczal when he argues that an exclusive focus on post-income re-distribution (cash or in kind) will be unsuccessful and any victories ultimately unsustainable. He dubs a political program that says "*just maximize growth rates, pre-tax distribution be damned, and then fund wicked-good social insurance with huge revenues from an optimal tax scheme*" as "*pity-charity liberalism*".⁷

As Konczal points out, it is politically impossible to achieve or defend a strong safety net without a strong working and middle class. A fight purely about taxes, transfers and services (given the power of capital and the wealthy) is one we will almost certainly lose.

In any event there is good evidence that retreating to “government as safety net” will see us spin our wheels. A strong safety net might be enough to protect the living standards of some (at least for a while) but sustainably raising them will be a stretch.

In the US, two-thirds of the increase in male wage inequality between 1973 and 2007 can be attributed (in equal shares) to a decline in collective bargaining density and differential education outcomes.⁸ This strongly suggests that the bargaining power of workers is equally as important as the provision of social goods in building a society that is both fairer and more prosperous. Low bargaining power affects not just the wages share, but arguably broader economic performance. In an Australian context, recent ACTU work on the decoupling of wages and productivity tends to suggest that weakening the bargaining power of workers retards productivity growth.⁹

The right get this instinctively, even if it’s occasionally forgotten on the left. It’s no accident that the “*single biggest obsession*” of the right in the last 30 years has been organised labour (at least in the Anglophone world, and at least since the spectre of Communism evaporated and with it our role as a bulwark against totalitarianism).¹⁰

The quality and quantity of jobs and giving bargaining power to workers is at least as vital a task as collective risk-management. Policies designed to affect the distribution of market incomes remain important. In practice, policies operate across this divide: for example, higher unemployment benefits are likely to improve the ability of low-paid workers to demand and receive a living wage.

Support requires understanding

Of course a political program which cannot be communicated and understood is pointless.

There is very low levels of understanding (amongst the community or the commentariat) that Australia is a comparatively low tax-country, or that we have the most “target efficient” system of social security benefits in the OECD.¹¹ The Constitution may prohibit the strict hypothecation of taxes, but it doesn’t stop better explanation: about how much we raise from what and whom and what it pays for. The IMF¹², of all people, might be fretting about rising Gini coefficients, but here mildly progressive tax policies are ‘class warfare’. False impressions about the real drivers of economic prosperity ultimately drives poor policy outcomes: in recent research we conducted on Australian’s perception economy people thought the mining industry was around 40% of GDP (cf. its actual level of around 10%).¹³

Attending to the deficit of democratic understanding is the urgent corollary to the task of policy development. People will not defend their interests if they do not understand how they are affected.

Conclusion

For me then, a Labor/labour vision for the economy and government that is about raising and protecting living standards has at least six parts (in no particular order).

- (a) Embracing social insurance to supplement social assistance and help households better manage risk and change (and ensuring that the incidence and design of these programs evolves as society and the economy does).

- (b) An intense focus on education, with its power to promote social mobility, boost national productivity and national income, resist entrenched intergenerational disadvantage, and retard the growth of inequality.
- (c) A tax and transfer system that (fairly, but efficiently) raises the revenue needed to support a resilient society that meets the challenge of perpetual change (including hard and soft infrastructure).
- (d) Putting jobs at the heart of macroeconomic policy: the fiscal and monetary levers must be complemented with thoughtful industry policy, competition policy and active labour market policy – not just ‘let it rip’ growth with trickle down.
- (e) Provision of social goods - clean air and water; well managed and maintained natural and physical heritage; public space, sports, arts and creativity; accountability and transparency in government and public life.
- (f) Respecting collective endeavour as well as individual freedoms: an industrial system that gives workers not just a floor of rights but real bargaining power, with rights and responsibilities, at work and in civic life.

NOTES

¹ I am grateful for comments and suggestions from some ACTU colleagues. Views and errors are my own.

² Prime Minister Gillard, *Address To Per Capita Reform Agenda Series*, 29 April 2013

<http://www.pm.gov.au/press-office/address-capita-reform-agenda-series>

³ *Australian attitudes towards wealth inequality and the minimum wage*, (May 2011)

<http://www.actu.org.au/Publications/WorkingAustraliaPapers/Australianattitudetowardswealthinequalityandtheminimumwage.aspx>

⁴ J Hacker, *The Great Risk Shift: the new economic Insecurity and the decline of the American dream*, (OUP, 2011)

⁵ P Krugman, *The Insecurity Election*, 18/11/2013, <http://krugman.blogs.nytimes.com/2012/11/18/the-insecurity-election/?smid=tw-NytimesKrugman&seid=auto>

⁶ L Kenworthy, *How to achieve shared prosperity even if wages aren't rising*, 10/4/2013,

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⁷ M Konzal, *Are we at the completion of the liberal project?*, 25/1/2001

<http://rortybomb.wordpress.com/2011/01/25/are-we-at-the-completion-of-the-liberal-project/>

⁸ B Western and J Rosenfeld, *Unions, Norms and the Rise in American Wage Inequality*, March 2011

http://www.wjh.harvard.edu/soc/faculty/western/pdfs/Unions_Norms_and_Wage_Inequality.pdf

⁹ M Cowgill, *A Shrinking Slice of the Pie*, ACTU, 5/3/2013,

<http://www.actu.org.au/Publications/WorkingAustraliaPapers/AShrinkingSliceofthePie.aspx>

¹⁰ K Drum, *Power, Baby, Power*, 22/1/2011, <http://www.motherjones.com/kevin-drum/2011/01/power-baby-power>

¹¹ P Whiteford, *Australia: Inequality and prosperity and their impacts in a radical welfare state*, (March 2013)

https://crawford.anu.edu.au/public_policy_community/content/doc/Australia_Inequality-and-Prosperity_final-15-March-13.pdf

¹² <http://www.imf.org/external/pubs/ft/survey/so/slideshow/>

¹³ Empirica Research, *Work and Welfare Perceptions Survey*, (March 2013),

<http://www.actu.org.au/Images/Dynamic/attachments/7864/Empirica%20Research%20-%20ACTU%20Welfare%20Perceptions%20Report%20MAR2013.pdf>