

AN ECONOMIC POLICY AGENDA FOR MAINSTREAM AUSTRALIA

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The 2019 election result was driven by mainstream Australians rejecting an agenda to fundamentally transform Australia. The government now has an opportunity to build and reinforce institutional bulwarks against the forces which undermine mainstream Australian values. To achieve this, public policy should seek to reinforce a community of stakeholders which underpin the success of mainstream Australia and secure the Australian way of life.

There are five key economic themes which underpin mainstream Australian values:

- Home-ownership provides a stake in local communities and the country.
- Work provides a stake in human dignity.
- Enterprise provides a stake in the economy.
- The payment of tax provides a stake in smaller government.
- Control over retirement income provides a stake in the future.

The 2019 election demonstrates that policies which reflect the values of mainstream Australians are both popular and good for the national economy and society.

This parliamentary research brief outlines these five economic policy themes, and provides an analysis of the emerging “New Heartland”.

Five Economic Values of Mainstream Australia

1. Home-ownership: A stake in the community and country

Home ownership is integral to the Australian way of life. It gives families a stake in the future, a source of capital, and connects them to their local community.

Australia’s longest serving Prime Minister, Sir Robert Menzies, argued that “the home is the foundation of sanity and sobriety; it is the indispensable condition of continuity; its health determines the health of society as a whole.”¹ The desire for home ownership continues today with 92 per cent of those who currently rent wanting to own their own home.²

However, rates of home ownership have declined. In 1986, 58 per cent of Australians aged 25-34 owned their own home. That figure is just 45 per cent today.³

The government’s proposed home deposit scheme targets the right problem, but is a partial solution when more direct measures are available, including:

- Reducing demand-side pressures stemming from mass migration into the major cities.
- Reducing red tape on land release, construction and zoning laws, enabling greater supply and reduced cost of housing.
- Reducing financial market regulation to increase the availability of credit.

2. Work: A stake in human dignity

Work is about more than financial stability. People who have a job have superior physical and mental health outcomes than those who do not.⁴ Work provides a source of dignity. It provides social connections. And it allows for the development of self-sustaining families and communities and enables home ownership.

The headline unemployment rate is a relatively low 5.2 per cent, but this hides some negative employment trends.⁵ For example, some 750,000 Australians currently receive the disability support pension⁶, 158,700 are long term unemployed (out of work for more than a year)⁷ and the youth underemployment rate is 18.1 per cent.⁸

To give more Australians the dignity of work the government should:

- Make it easier for employees to enter individual flexibility agreements.
- Remove the 'conveniently belongs' provision which allows unions to monopolise workers.
- Re-instate the threshold for exemption from unfair dismissal laws for small businesses back to 50 employees.

3. Enterprise: A stake in the economy

There are 2.2 million small businesses in Australia, accounting for 97 per cent of all businesses.⁹ Small businesses collectively employ close to 5 million Australians, which is around 44 per cent of total employment,¹⁰ or around 52 per cent of private sector employment.¹¹ Some 60 per cent of young Australians would one day like to start their own business.¹²

But small business is struggling. In 2018 there were 38,000 fewer new businesses created than a decade prior.¹³ And recent research by the Institute of Public Affairs estimated there would be 275,000 more businesses in Australia today if business creation continued at pre-Global Financial Crisis levels.¹⁴

Red tape is the key cause of declining enterprise. Research by the Institute of Public Affairs estimated that red tape reduces economic output by \$176 billion each year, the equivalent to 10 per cent of GDP. This makes red tape Australia's biggest industry.

Even Price Waterhouse Coopers found that "over-regulation" was the equal biggest threat to the ease of doing business alongside policy uncertainty.¹⁵ By

contrast, climate change was the 13th biggest threat, behind factors such as exchange rate volatility and cyber threats.

For the government to achieve its goal of 250,000 extra small and family businesses in five years' time, it should:

- Cut red tape by introducing a one in two out approach to government regulations, as in the USA.
- Reduce the corporate tax rate, which discourages small business growth, to 20 per cent.

4. Tax: A stake in smaller government

A declining proportion of Australians are net tax payers. According to KPMG, 60 per cent of Australian households pay zero or negative net income tax.¹⁶

This means fewer Australians directly experience the deleterious effects of a larger government with more spending and higher taxes. The government's proposed income tax cuts are a positive start. To improve on this policy, the government should:

- Bring forward the later phases of the Coalition's proposed income tax cuts so they take full effect in this term of government.
- Remove the income tax-free threshold and return the additional revenue through lower and flatter tax rates on the principle that the more Australians who pay tax, the more Australians will support lower taxes and smaller government.

5. Retirement income: A stake in your future

Superannuation can encourage self-sufficiency and independence and gives Australians a stake in their own future. However, the current system is disempowering and provides direct support and control of financial capital flows to the union movement, and indirectly the Labor Party. For example, research by the IPA found that between 2014 and 2017, trade unions received \$18.4 million via directors' fees from industry superannuation funds.¹⁷

To give Australians more control over their lifetime investments and their retirement income, the government would ideally make superannuation voluntary. If not, it should:

- Permanently shelve the proposed increase in the superannuation guarantee contribution from 9.5 to 12 per cent.
- Actively support the use and growth of self-managed superannuation funds wherever possible.

The New Heartland is Based on Mainstream Values

The recent federal election saw an unexpected swing towards the government in key seats across the country and especially in Queensland. Amongst the factors discussed include:

- A growing split between inner-city/inner-suburban voters and outer-suburban/regional voters.¹⁸
- The electoral effect of specific policies, such as climate change and tax increases.¹⁹
- Values-driven cultural issues, including freedom of speech and freedom of religion.²⁰
- Factors unique to Queensland have also been discussed.²¹

These factors can be read together as a part of the emerging divide between “inners” and “outers”, documented by Matthew Lesh in *Democracy in a divided Australia*.²² The recent election revealed that this divide is not an even split: mainstream values continue to be more popular than the alternative progressive vision and therefore electorally decisive.

Contributing to the dynamic is the divide between relatively noisy knowledge economy workers, who occupy a greater share of media, journalism, and academic industries, compared with the quieter voters in regular professional services, manufacturing, heavy industry, and resource-sector jobs.

- Analysis by Ben Phillips of the Australian National University shows that seats with higher levels of education and income swung to Labor, but that electorates tended to swing to the Coalition when the shares of families and Christians were higher.²³

However, comparing electorates can give a false impression, as it misses significant differences within electorates. This election demonstrated that many seats may look like ‘inner’ seats, but are actually a mix of inners and outers, with the latter group remaining more numerous.

- For example, Phillips’ analysis finds no correlation between an electorate’s share of renters and its two party preferred swing, but this result does not capture whether renters and homeowners within the electorate voted differently and to what extent.

In this context, we offer the following observations about the election:

- In the cities, the Liberal Party’s loss of support in its traditionally safe seats is driven, at least in part, by changes in the composition of those electorates, not by changing voter preferences. A process of **internal migration** created by the densification of inner-city suburbs has brought new voters into those electorates while reducing the number of Coalition voters.
 - For example, booth results in Kooyong show that the Liberal vote was weakest in the booths near Swinburne University and in other built-up areas in the electorate. The Labor and Greens candidates were less successful in booths in areas comprising more family homes, like Balwyn North.
 - Similar patterns can be seen in Melbourne in Higgins and Goldstein, in the Sydney seat of Wentworth, and in Curtin in Perth.
- The Coalition performs best where voters are **homeowners** or mortgagees, and performs worst where voters are **renters**, and specifically where people are renting apartments in built-up areas. This impression is reinforced by the strong performance of the Coalition in outer suburban areas.
 - Seats like Menzies, Monash, Aston, Banks, and Hume have become a **new heartland** for the centre-right. This strength in the suburbs is reinforced by the results in, for example, La Trobe, Chisholm and Lilley, all suburban seats that are shifting in a conservative direction.
 - It can also be seen in the swings that the Liberal Party attracted in even very safe Labor seats in the suburbs, like Parramatta, McMahon, and Brand.

- These factors came together to produce the outlying result in Queensland. Regional seats in Queensland rebelled against an agenda set from Sydney and Melbourne, in particular the effect that aggressive climate change policy would have on the mining industry and regional employment, while the pattern in suburban Queensland mirrored the other cities.
- The political economy suggests that it is beneficial for both parties to target mainstream values voters. The centre-right ought to consider whether catering to internal migrant voters in traditionally safe seats will cut across its efforts to **deliver results** for new heartland voters and voters in regional seats.
- Though it has been suggested that Labor ran a “populist” campaign targeted to middle and working class voters, this is belied by preference flows from explicitly populist parties like One Nation and United Australia Party that went more strongly to the Coalition than in previous elections.²⁴ These preference flows were particularly important in seats like Longman and Herbert.²⁵

A further dynamic driving the policy preferences of mainstream Australians is widespread asset ownership, either of property or through superannuation. Compulsory superannuation in

particular has resulted in equities ownership being widespread across occupational lines.

A 2015 survey undertaken by Australian National University professors Ian McAllister and Toni Makkai found that the probability for the Coalition securing a vote from someone with no economic assets was 38 per cent, compared to 70 per cent for someone with the maximum measure of ownership.²⁶

Asset ownership gives people a stake in the future of the economy, encourages self-reliance, and makes voters wary of attempts by government to confiscate or raise taxes on those assets. In other words, asset ownership creates incentives for people to favour lower taxes, smaller government, and a system of private property.

Overall, the dynamic is that **mainstream values** like home ownership, strong families, and secure retirement are the keys to electoral success. These values can be reinforced or impeded, but not created or erased, by government policy. The government should express the same values as the people it governs, and this means taking sensible steps to encourage employment, business creation, family formation, and saving, all of which are key institutions and habits that support secure middle class life. In this sense, the new heartland is the same as the old: Australian politics is decided by the suburbs, because that is where the Australian way of life is lived.

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Endnotes

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