

Discussion on the political situation following the recent change of government, and its implications for the financial services sector

Narrative is a much over used word in politics. It is usually applied to the story a government or opposition is trying to construct about what it is doing, what drives it.

But of course, narratives are nothing more than an organizing principle for explaining a lot of complex and disparate events.

And there seem to have been a lot of very different narratives abroad about this new government since it was elected last year.

Business people will ask you why the government ‘isn’t doing anything’. There is a lot of narrative that argues the government is chaotic and politically flatfooted. Equally, there is a narrative that suggests the government has a very clear, hardline strategy to pursue and it is pursuing it ruthlessly.

The Labor Party will say the government is up to no good, except on things where it should be doing things but isn’t.

Tony Abbott is the most unpopular prime minister elected in the last thirty years. The Coalition has edged back in front of Labor in some opinion polls but is further behind in others

And whatever its position in the opinion polls , separate poll questions on specific issues suggest voter skepticism about how the government is handling issues from asylum seekers to industrial relations.

So what is my narrative, or alternatively, which bits of these various narratives ring true to me. And what does the change of government imply for the financial services sector?

I'm afraid the narrative remains, like the government, a scattered and confused story still in construction, but here are a few elements of it.

It begins with the election result itself.

Given the chaos of the last three years, and the deep antipathy of voters to the former government, the swing to the Coalition on September 7 last year was much less convincing than it had hoped for.

Sure, the pragmatic argument is that you only need enough of a swing to get you in the government. The rest doesn't matter, and can sometimes just mean a very large and restless backbench to manage.

But two particular factors about the election result continue to echo on in to the way the government conducts itself and must construct its political and policy strategy.

The first is that Tony Abbott really was – and remains – a very unpopular prime minister. Reservations about Abbott were a cause of considerable anxiety within the Coalition before the election – in the sense that they might suppress the size of the expected victory – and remain a constraining factor on the way the prime minister presents himself now.

The Fairfax Nielsen poll published at the beginning of last week showed Mr Abbott's personal net approval has dropped into negative territory after just 5 months in office. Nielsen pollster John Stirton says this is faster than any Prime Minister in Nielsen Poll history, with the exception of Paul Keating who started off negative - at minus 23%. Julia Gillard's net approval went negative for the first time after nine months in office, Malcolm Fraser after fifteen months and John Howard after eighteen months.

The impact of voters' view of the prime minister is pretty clear. He has taken a very low profile since the election, leaving much of the running on the government's budget agenda to his treasurer. He is working hard to remake his attack dog/ideological warrior persona. Hardly a public utterance goes past when he doesn't use the words 'calm and methodical'. He is emphasizing policy areas that might surprise voters like indigenous affairs (though his personal commitment on this issue should not be underestimated).

Abbott's political persona – and the government's public progress and policy palette – is also constrained by the prime minister's pre-election pledge to restore credibility to politics and government. He continues to pledge to be a government that will keep its commitments, to be a government of no surprises. He has said that if there are to be any changes in the government's position, he will ensure they are mandate issues for the next election, meaning he won't legislate them until 2016.

This is proving to be a most costly promise, no matter how noble, when the government has also told us we face a budgetary crisis that needs to be addressed urgently. Much of the clunkiness you see in the utterances of senior ministers reflects the conflicting pressures of the messages of no surprises and the need to change the narrative and inject both a sense of urgency - and room for policy change - into the story.

The second echo of the election result, of course, is that the federal election saw many voters who were disillusioned by both sides of politics spray their votes across minor parties in both houses of parliament, but with particularly significant ramifications for the make up of the post July 1 Senate.

That means that, even after the new Senate takes its seats after July 1, the government will be just that extra bit uncertain about

the fate of its legislative program, no matter how many conservative minor party figures might be on the cross benches.

The uncertainty is only compounded by the need for a new Senate election in Western Australia which could mean the Government will have to corral an extra vote from a cross bench which someone colourfully described as looking 'a bit like the bar scene in Star Wars'.

Each of the minor party interests will be doing their utmost to ensure that they each wring out of the government some specific concession for passage of any contentious piece of legislation.

So there are constraints on the prime minister's range of political rhetoric and there are legislative constraints.

But the Coalition is doing all in its power to ensure it doesn't have any great competitive constraint.

Labor has been left critically weakened by the events of the past five years.

Not only did its infighting see it lose government, it also cost it a huge swathe of experience and future leaders.

Tactically and philosophically, Labor wanders around the Parliament looking like a bunch of lost souls, not sure where to launch a political attack, and not sure what it believes in any more.

To ensure the Opposition remains crippled through at least a first term of Coalition power, the Government has initiated not one but two Royal Commissions which MPs on both sides have no doubt are clearly targeted at Labor leaders, whatever their supposed and more legitimate lines of inquiry may supposed to be .

The Royal Commission into union finances is seen to be targeting Bill Shorten personally – as a young official from the Australian Workers Union at the time of the Gillard Wilson controversy – as well as Gillard herself. The Royal Commission into pink batts has Kevin Rudd in its sights.

(As an aside, both Royal Commissions could take Tony Abbott and his government into troubled places, if for no other reasons than they establish some precedents which will come back to haunt all governments. One example of this is breaking the so-called 30 year rule on cabinet documents with Rudd Government cabinet documents due to go the pink batts Royal Commission. The other is the precedent of looking to personally pin the blame on federal government ministers for actions taken at several steps removed from them. You need look no further than the recent events on Manus Island to see how dangerous a precedent that is).

The government's strategy to sideline Labor is perhaps its clearest success to date.

Unfortunately, beating up Labor remains its tactic when ever signs of trouble emerge on other fronts.

It's not that governments don't regularly beat up the opposition, nor that any new government will spend its first twelve months doing as much as it can to highlight all the problems its predecessor has caused.

What worries many in the Coalition – and observers including me – is that it is yet to show that it has a coherent plan for dealing with all those problems.

The Government has been working away at the stuff it has always had on its 'things to do' list.

That has ranged from the review of unlegislated tax announcements, to restructuring parts of the public service, from restructuring AusAid out of existence to introducing legislation to get rid of the carbon tax. A myriad of the reviews it once criticized Labor for have been established from the financial system inquiry to Productivity Commission reviews of everything from infrastructure to industrial relations.

But if you want to get a handle on where the government is headed, it is often still best done by looking at its constituent parts, rather than seeking any clear ideological or policy line.

I can't think of a recent new government in which ministers have been so conspicuously jockeying for influence and dominance for so long.

As I mentioned earlier, Tony Abbott is constrained by the need to remake his public persona and by the deadweight of pledges he has made. His office remains cautious, sometimes vindictive and paranoid.

The prime minister made a speech earlier in the week in which he said that while the government would keep its election promise not to cut spending on health and education, the government would be cutting the rate of growth in spending in future years.

Given all the other rhetoric from the government, this was widely seen as the start of the softening up process, the shift in rhetoric, that everyone knows the government will have to make.

Yet the Prime Minister's office was alarmed, and even angry, that this was the interpretation widely put on the story.

While the prime ministerial caution prevails, Joe Hockey has been making a sterling run to be the game setter for the government.

He's been out there from very early on putting some of the threads in place for the story he will finally tell in his May Budget.

He's revived talk about the end of the age of entitlement. He started talking about recycling public assets via privatization. He has been leaving open as many options as possible on spending cuts. In the past week or so, he's started to get specific: backing the health minister Peter Dutton on the need to have a 'national conversation' about Medicare, questioning the sustainability of the age pension.

In short, there is an increasingly clear schism emerging in the government, identified as being led respectively by the prime minister and the treasurer, and going to political strategy and particularly budget strategy.

On the one side is the prime minister and caution. On the other side is Hockey – along with a number of other senior ministers including Finance Minister Mathias Cormann, Employment Minister Eric Abetz and Health Minister Peter Dutton who want to go for it.

In just the last 48 hours, we have had two examples of the differences that are represented by this schism, and the political difficulties it poses for the government.

The first example comes from *The Financial Review's* report yesterday that the Commission of Audit had a less than enthusiastic view of Tony Abbott's paid parental leave scheme.

Hockey has until now taken a pragmatic approach to his prime minister's political commitment to the paid parental leave

scheme, insisting there has been a trade off in the form of a commitment that the scheme would be fully funded by cuts already under taken.

But with the Nationals, and many others in the party, very hostile to the scheme the thing should rest in the balance.

But the prime minister has now put on the record his implacable insistence that the scheme will go ahead.

The second example comes from the crisis surrounding Qantas. This is a little more complicated. Joe Hockey told the AFR a few weeks ago that Qantas was a special case because it was facing an uncompetitive market which changed the argument about issues like a debt guarantee. But yesterday the Prime Minister told the Parliament that there could not be one rule for one company and a different role for everyone else.

In this case, Abbott is taking a tougher line than his Treasurer.

But once again, the division is clear and is on the public record.

There would have been a time – and a time certainly during my professional career in Canberra – when such divisions would have been readily and happily acknowledged and ultimately resolved.

But in the take no prisoners politics of 2014, it seems that it is impossible for a recognition that there are different views abroad on an issue.

That only escalates the apparent tension.

The big question... at this point unanswerable.. is who will prevail at the time of the budget. Or will the much hyped

defining moment for the government be some awful compromise in the middle?

The big policy calls to date don't give us any clear grip on the government, if we are looking for signals on what Tony Abbott himself used to call the policy versus pragmatism scale.

The Graincorp decision, for example, was clearly at the pragmatic end of the scale. A decision which for the policy purists could be based on rather unpleasant perceptions of the bidder's tax record, and the pragmatists on the impact it would have on the Nationals' support base.

Similarly, while the government appears to have taken a tough line on the car industry, in reality the response to decisions by Holden and Toyota to withdraw from Australian manufacturing have been based on a pragmatic decision that the manufacturers were going to do, whatever the government did.

The decision was made – combined with the SPC decision – that the government had more to gain from sending a message about ending support to uncompetitive industries than propping up fading parts of manufacturing industry.

Qantas, at this point, seems to me a much more radical call. And one built on politics rather than necessarily policy sense.

Combined with this week's drought decision, it seems to send very confusing messages about what the government sees as its role.

Ultimately, this is a government that says it is 'open for business'. Yet it has happily presided over several months of closures of major businesses.

I believe the profound nature of the change in expectations the government is trying to put in place is being widely estimated, or being lost amid all the noise in Canberra.

For the government has not just been talking about entitlements in terms of industrial relations or even welfare recipients. It is spreading the story into corporate welfare and even on into middle-class welfare.

The extent of the change contained in the government's rebuffs to business really don't seem to have properly penetrated the public debate. It is not just that the government is saying it won't give handouts to business. It is saying it wants business to step up to the plate and make the tough calls on what they must do to be more competitive.

This is immense for a political organization that is seen as the mouthpiece of big business. Maybe it is just that Coalition politicians are sick of business people coming to them and complaining that something should be done about IR, but not being prepared to make the tough decisions themselves.

But I think there is a deeper realization that the mindset of business has to change and has to get a rude shock.

We are already seeing the savvier operators respond to the change in the game. Look at how Qantas shifted its message about what it wants from Canberra, and about how it has argued that its preparedness to make tough decisions on IR show it is doing everything that is necessary to be a precursor for some of government support.

It is also important to recognize that it is not just in the field of industrial relations where the government is pushing this message. The message wherever you go in Canberra is: if you want a change, you will have to do the heavy lifting in the public debate to set the scene for us to make the change.

Government is not going to be the only mug in town in future that's shaping public debates and pressing for unpopular change.

This is all about a redistribution of the ownership and risks of politics, but it is also about constructing a narrative – erk that word again – that has some coherence

Joe Hockey said the other day that if Australia was to be competitive, government, business and unions, all had to put their best feet forward.

And this lies at the heart of the narrative now being constructed by Joe Hockey and Tony Abbott.

The Prime Minister and Treasurer have made it clear that when they talk about the need to reset individuals' expectations of entitlement from government they are not talking about the usual beating up on the unemployed and welfare recipients.

This long-suffering cohort has been the poor substitute of many governments for more radical re-examination of our personal relationships with the Commonwealth.

Hockey told the Lowy Institute recently that "too many taxpayer dollars have been spent on corporate and middle-class welfare and too often previous governments have been drawn into areas that are better left to the private sector."

The big tests of course, will be whether the government really has the courage to unwind middle class welfare measures in the May budget, and, in a possibly slightly sacriligious act, unwind some of the largesse of the Howard era.

Just as I think the underlying direction of where the government is going has been lost in all the talk about inconsistency, I think there is a second idea that hasn't really come to light yet that helps explain the government's political strategy and tactics.

It is certainly one that is now organizing the way I look at the government.

Tony Abbott kept telling business before he won government that it would have to wait until a second term of Coalition government for big legislative change. That it was impossible to implement radical reform from opposition.

But a bit like soldiers waiting for the big artillery barrage on the western front, it is easy to miss what has been going on in the meantime and mistaking it for simple caution.

Let us return once more to the industrial relations front for a case study in what I think the government is up to more broadly.

It is true that the government has reasonably limited legislative ambitions on industrial relations this term.

But just consider the scope of what it is potentially achieving without any legislative change.

It has put Labor – and the unions – on the backfoot with the Royal Commission and the political barrage over union corruption.

It is not just that this hampers Labor politically, but constrains the unions both financially, and in terms of focus, in taking on aggressive employers.

Meantime, the Government is pushing the Fair Work Commission very hard to review minimum terms and conditions of employment, particularly that favourite bête noir of the Coalition, penalty rates, through the award modernization review.

It is holding over the Commission's head the threat of setting up a review panel which would have the power to overturn full bench decisions

In other words, it is giving itself the capacity to get quite important changes in wages and conditions pushed through the system, but in a way that puts the 'blame' for this on the Fair Work Commission, the independent umpire.

And this week it has introduced legislation which will erode the legislative support for penalties, arguing the move is 'family Friendly'.

I call this Tony Abbott's 'Hill 60' approach – after the famous mining operations under the western front in which both sides would tunnel under the trenches to some opportune point, lay a huge explosive charge under the enemy lines and seek to make a dramatic breakthrough in the muddy stalemate.

I reckon the Coalition is doing it in all sorts of areas of policy. We just aren't quite aware of it yet

Tony Abbott has form on such tactics as one wise political player observed to me on the weekend.

“Look at how Abbott destroyed Hanson”, this person remarked. “He didn't launch a full frontal assault on her public comments, he destroyed her by destroying her party in the courts. It was and institutional attack.”

The ultimate constraint on the government's May budget will be the economic outlook and the risk that an onerous budget may hit business confidence and activity.

My working presumption about the budget is that it will not contain a lot of savings for the coming 2014-15 year, or for

2015 -16 but that it will foreshadow big savings in the so-called budget 'out years' in 2016 and 2017.

The government will be able to claim these savings show it keeping its election commitments and also giving voters the opportunity to either vote it out if they don't like the savings, or give it a ringing endorsement.

What are the implications of this new government for the financial sector?

The starting presumption of many in the business community would traditionally be that a Coalition government is more friendly to it than a Labor government.

But I think the fate of the Future of Financial Advice reforms (FOFA) is instructive for a more pragmatic view of the new government.

Whether you think the proposed winding back of the FOFA reforms is a good thing or a bad thing, it is worth noting that the extent of the reforms goes beyond what even the Coalition itself recommended before the change of government, and at least some of the changes have been made against the advice of Treasury and the regulators.

Having said that, you are lucky in having one of the smarter ministers in the government – Arthur Sinodinos – who will make his own calls on these issues, based on a long history of policy making in Treasury and pragmatic politics as John Howard's widely regarded chief of staff.

However, I'm personally not entirely comfortable with his explanation that he has gone so far on FOFA in the interests of reducing red tape.

Arthur has also showed you this morning that he is prepared to intervene in areas where there are problems, such as the insurance market in Far North Queensland.

Beyond these issues that may affect some of you directly, the change of government promises a wide sweep of policy changes that offer big change and opportunities in your sector.

These range from attempts to give greater freedoms and responsibilities to the states, and the new fashion for state asset privatization and massive infrastructure investment, to the implications of privatisations people haven't really thought about much.

I suppose I particularly have in mind here the possibility that the government will both privatize the ASIC registry and seek to boost revenue through new fee structures for everything from ASIC services to the licences of financial advisors.

I think the ambitions of the financial system inquiry will extend beyond simple questions of competition between existing institutions to questions that contemplate the fact that the finance industry has become a power in itself as a contributor to GDP that was only dreamed of when I started my career as a finance journalist over 30 years ago.

The Coalition's interest in bilateral trade negotiations – as opposed to multilateral negotiations – gives another example of how issues beyond the narrow confines of industry regulation change with a change of government.

Whoever it was who said that when you change the government you change the country was right. Depressingly, the politics might not change much. But I urge you to try to look beneath the politics at what else might be changing more profoundly.