

Malcolm Turnbull must break free of the populists



Prime Minister Malcolm Turnbull at a press conference with Treasurer Scott Morrison in Sydney. James Brickwood

by The Australian Financial Review

Malcolm Turnbull is struggling to lay firm foundations for government over the next three years. The slimmest majority in the lower house, an expanded balance-of-power cross bench in the Senate and a Labor opposition that smells blood in the water will likely frustrate his efforts. The first cabinet meeting of the new government was dominated by Kevin Rudd. When the Prime Minister saw an opportunity to be decisive, over the treatment of juvenile prisoners in the Northern Territory, his decisiveness proved rushed. Then Mr Turnbull played on Labor's territory last week by agreeing that the banks were somehow ripping off Australians. Here lies a political lesson. Mr Turnbull will not relieve the political claustrophobia that threatens his government by agreeing with his populist captors. That will only make him more captive. He must focus overwhelmingly on promoting the prosperity that Australians want. He must always argue the policy position that will most promote this. And he must always contest the populist diagnoses that threaten it.

So, as The Australian Financial Review noted last week, Mr Turnbull was right to point out that the big banks needed to publicly explain why they passed on only 10 to 14 basis points of the Reserve Bank 25 basis point cash rate cut to mortgage borrowers while also increasing interest rates on term deposits by up to 85 basis points. But he was plainly wrong to declare that the banks should pass on the full 25 point cut to mortgage borrowers, as the Financial Review also has argued. Quite simply, interest rates have fallen so far that the banks are struggling to attract enough deposits to fund their lending. So they have not been cutting deposit rates for savers in line with the fall in the Reserve Bank's cash rate. And, last week, they even increased term deposit rates, which retirees welcome, as we report today. But attracting deposits has been eating into their interest margins, which is why they are not fully passing on the Reserve Bank's rate cuts to mortgage borrowers. Mr Turnbull should be taking the lead in helping Australians understand the new environment facing their capital-importing financial system. And he doesn't have to take the big banks' word for it. Members Equity Bank, set up by union-dominated industry superannuation funds, has only passed on only 40 per cent of the Reserve Bank rate cut to its mortgage borrowers citing significant ongoing increased costs in raising deposits. Three of the big four banks - Westpac, the

Commonwealth and ANZ - passed on more. Should Labor leader Bill Shorten include the trade union bank among the "arrogant" banks he claims require "strong action" from politicians?

In similar vein, Mr Turnbull needs to more vigorously set out the undeniable case for the legislative trigger for the double-dissolution election: the return of the Australian Building and Construction Commission. There is an excess of evidence of the persistent and deliberate law-breaking by the Labor-affiliated Construction Forestry Mining and Energy Union. Mr Shorten and Labor are highly vulnerable on this issue. Mr Turnbull and his ministers need to get this through the Parliament as a foundation stone of their government. And from that, they should start vigorously arguing the need for workplace reforms that would promote more productive workplaces and higher-paying jobs. And from that they need to argue much more forcibly for budget repair needed to reduce Australia's exposure to any downturn in the global economy; for genuine tax reform to sharpen the incentives to work, save and invest; and for competition policy that, among other things, would help the economy exploit the opportunities from digital disruption while lowering the cost burden on industries from tourism to agriculture. That is, Mr Turnbull needs to construct the economic narrative he promised when dislodging Tony Abbott nearly a year ago. Without some compelling guiding program, case-by-case transactional politics will surely fail to gain momentum.