

# THE AUSTRALIAN

## Fiscal fudge worthy of Dr Seuss

HENRY ERGAS THE AUSTRALIAN MAY 13, 2013 12:00AM



Illustration: Eric Lobbecke Source: The Australian

**"IMAGINE a wage earner, John." But not Julia Gillard's avatar. Rather, the John who was elected prime minister on March 11, 1996. Inheriting a budget deficit of 2.1 per cent of GDP, he promises a surplus: a year later, he delivers it.**

John then runs nine more budget surpluses, reduces income tax five years in a row, pays off his predecessor's \$96 billion in debt and accumulates assets, with net debt becoming minus \$44bn.

Nor is that all. Average real male earnings in 1995-96 were only 2 per cent higher than in 1982. In John's period as PM, they rose 47 per cent. That didn't stop jobs growth, however, with unemployment falling to its lowest level since 1974.

Middle-income earners were great winners, with Australia recording the highest growth rate of median income in the advanced economies after Ireland (which started from a much lower base and whose success was illusory). And strong employment growth, underpinned by increased labour market flexibility, not only spread prosperity but also proved the best form of welfare.

In the early 1970s, fewer than 5 per cent of the working-age population received social security benefits. That proportion rose steadily to 26 per cent in 1996. Under John's government, however, it fell to 16 per cent, while the share of households mainly dependent on government benefits nearly halved to 12 per cent.

At the same time, welfare payments became better targeted. That allowed generosity, with Australia redistributing more income to the poorest 20 per cent than any other advanced economy except Denmark. The living standards of low-income families therefore increased rapidly, bucking international trends to greater inequality.

No wonder Labor hates John. He didn't waffle about fiscal responsibility, jobs and fairness. He acted on them. And no wonder that while John forthrightly emphasised Hawke and Keating's achievements, Labor has never had the

decency to acknowledge his. Instead, Labor's strategy is to disparage Howard, when it isn't demonising him. And it is accompanied in that by its fellow-travellers (first class) in the ABC.

Emma Alberici's latest contribution to the ABC's *The Drum* is a case in point. Let's be clear: Alberici's piece isn't exceptionally woeful. On the contrary, it is precisely its commonplace character that makes it a perfect representative of the type.

As for its substance, like a mosquito that has wandered into a nudist colony, one scarcely knows where to start. Basic facts are garbled. For example, according to Alberici, "the stimulus of 2009-2010 pushed spending up to 26 per cent of GDP but since then it's been contained at 24 per cent". Nonsense: compared to 23.1 per cent in Howard's last year in office, commonwealth spending was 24.7 per cent of GDP in 2010-11, 25.3 per cent of GDP in 2011-12 and seems set to rise to 25.5 per cent this year.

But it gets even better when Alberici castigates Howard for "fiscal profligacy". She might have noted that the ratio of government spending to GDP fell under Howard; or that had Labor maintained Howard's spending share, public debt would be \$115bn lower. But she doesn't.

Instead, Alberici cites a study she incorrectly attributes (twice) to the International Monetary Fund as finding the Howard government profligate. But Alberici cannot have read that study; had she done so, she would realise the study finds no such thing (see my blog for details).

Of course, that won't stop Labor suggesting the opposite; there is, however, a stark difference between Alberici's situation and that of Labor politicians. No one is obliged to vote for Labor; but we are all obliged to pay for the ABC. That imposes a duty of care Alberici and her colleagues ignore: and never more blatantly than in imputing a degree of equivalence between the Howard government and the shambles on display tomorrow.

None of that is to suggest Howard was perfect - far from it. But whatever the failings, John knew some basic truths. Keep the public finances intact; preserve the public balance sheet; and use what fiscal room you have to lower taxes, for no government spends as wisely as people spending their own money.

Those truths are not complicated and you don't need to be a saint to grasp them. Labor could have done so every bit as well as Howard. From the outset, however, it wanted to have its cake, eat it and, most of all, share it with its friends. That it lost control of spending is therefore no surprise.

Nor is it surprising that as it swings into obituary-improving mode, Labor is filling the airwaves with "explanations" of its fiscal quagmire worthy of Dr Seuss: first this happened, then that, and then something else, and it will never happen quite like that again.

Those excuses will be received as they deserve; but Howard's experience contains lessons for the opposition too. In fiscal policy, as in war, everything is simple yet nothing is easy. And it will be even tougher this time around.

For the transition our economy is undergoing has not dampened community expectations of public expenditure. Moreover, while Howard constrained spending, he did not succeed in reforming its underlying momentum; and Labor has not only boosted that momentum but placed time bombs into health, education and welfare outlays that make them unsustainable. With growth uncertain but still strong, and the Prime Minister trying to convert the election into a contest in fiscal perjury, repairing our fiscal fabric will require selling hard choices in what for most Australians are not hard times. As he stands up to deliver the budget reply speech, Tony Abbott should therefore do as Gillard has requested: "Imagine a wage earner, John." And be prepared to finish what Howard started.

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