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Fiscal 'facts' sure to make a prestidigitator proud

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FLYING START: LABOR v COALITION

Rank	Government	1st three Budgets	Average annual real spending growth (%)
1	Whitlam	1973-74, 1974-75, 1975-76	13.3
2	Hawke	1983-84, 1984-85, 1985-86	6.7
3	Rudd-Gillard-Rudd	2008-09, 2009-10, 2010-11	5.5
4	Keating	1992-93, 1993-94, 1994-95	3.5
5	Howard	1996-97, 1997-98, 1998-99	2.1
6	Fraser	1976-77, 1977-78, 1978-79	1.2

Source: MYEFO 2013-14

Graphic: Viki Sizgoric Source: TheAustralian

THE news would have sent the champagne corks popping.

Merely two days before Christmas, Ross Gittins, the sage of the Fairfax press, had crunched the numbers and the verdict was in: Rudd-Gillard-Rudd may not have been models of fiscal rectitude, but Howard was far worse.

In fact, if we are suffering budget woes, "the Howard government did most to add to the existing problem".

Gittins, of course, has form on fiscal issues. This is the man who hailed pink batts and school halls as "carefully designed" while claiming Rudd's stimulus spending would "do nothing to slow the budget's return to surplus when the economy recovers". But, even compared with such prescience, his retelling of our fiscal history sets new benchmarks.

As is so often the case, the trouble starts with the data. Gittins is a practitioner of the Sweeney Todd school of statistics: the bits he doesn't like, he chops off.

Nor do Gittins's readers get much warning of the razor's slice: one wouldn't want to trouble innocent minds. Better to pull the magic trick, letting the gasps of delight follow.

After all, the results would make a prestidigitator proud. For the seer finds that with real outlays rising at an average annual rate of 3.7 per cent, Howard actually outspent the RugRats, who barely managed

annual spending growth of 3.5 per cent.

Pity there is a problem: Gittins has deleted from his analysis the Howard government years of spending restraint. Had he included those years, and gotten his sums right, the growth rate of spending under Howard would have been 3.3 per cent, compared with the RugRats' 3.6 per cent.

Moreover, measured in accrual terms (i.e. taking at least partial account of future liabilities), the gap would have been even greater, with annual spending growth under Labor exceeding that under Howard by about 0.4 per cent.

And the gap would be larger again if one added the commitments Labor made under the disability, Gonski and hospital funding agreements, as well as the contractual obligations for the NBN, taking the difference in accrual terms to well over 1 per cent a year.

One might have thought Gittins's readers should have been warned of these inconvenient facts. But, as Christopher Fry put it, a halo is merely one more thing to keep clean; and why strive for accuracy when these debates barely seem relevant to the difficult choices ahead?

Yet Gittins's claims are integral to a moral equivalence gambit that risks becoming part of the conventional wisdom. By denigrating the Howard government, that gambit seeks to exculpate Rudd and Gillard; and in the process it helps hide the flaws that have scarred Labor's economic policy from Whitlam to the present day.

Those flaws have played themselves out with the scripted rigidity of a Noh play. As soon as Labor comes to power, spending explodes, with Whitlam, Hawke and Rudd each initiating expansions in their first two budgets that increased outlays by two to four times their long-term rate of growth. Those increases then cause a rapid deterioration in the budget position, ultimately forcing a spending pause and tax hikes. Little wonder that since 1983-84 Labor governments have accounted both for all six of the spending splurges and for three of the four years of sharp fiscal tightening.

Nor is this Keynesian "fine tuning" at work, for the fiscal gyrations have scarcely tracked economic activity.

Rather, Labor's destabilising stop/go cycle reflects political pressures, as it tries to deliver on promises to the unions and the social welfare lobby that are soon shown to be unsustainable.

Time and again, however, the constituencies to which those promises are owed have proven powerful enough to prevent the initial fiscal expansion being fully reversed. From Hawke in 1983 to Rudd in 2013, each of Labor's stretches in office has therefore resulted in steeply rising net debt.

Substantial unfunded commitments to entitlement spending, stretching from Whitlam's social security to Rudd and Gillard's promises on hospitals, schools and NDIS, have further poisoned each Labor government's fiscal legacy, with the quantum of the unfunded liability rising each time around.

Gittins's claim that "Keating's return to budget surplus in 1987-88" inaugurated a "period of exemplary fiscal policy" is little more than fiction. Rather, Howard inherited a fiscal mess every bit as challenging as that which Rudd and Gillard left behind.

The Howard government's achievements in correcting that mess surely speak for themselves: 10 budget surpluses in 12 years, despite the Asian economic crisis of 1997 and the "tech wreck" of 2000-01; and net debt per capita in 1996-97 of \$7993 in today's dollars transformed into per capita net assets of \$2473

in 2007-08. Treasury estimates show a structural budget surplus that even during Howard's heavily criticised final term averaged 0.7 per cent of GDP, while net debt continued to fall.

To those achievements must be added labour market and tax reforms, including cuts to severely distorting taxes on income and on superannuation, which boosted the economy's flexibility and growth potential.

These outcomes, unparalleled since the 1960s, helped us weather the global financial crisis without imposing a crippling burden on future generations. But Rudd and Gillard were determined to tear those achievements down: and in that they succeeded all too well.

Yet Gittins can't bring himself to recognise any of that. And, instead of exposing the Rudd-Gillard governments' failure, he provides Labor with an alibi: as everyone is equally responsible for our current predicament, no one is truly responsible.

That doesn't do Labor any favours. For rather than wallowing in the illusions of consolation, it needs to confront the fiscal lessons of 40 years of Labor governments. Until it does, the cycle of failure will continue, and with it the drama of a party that promises only to disappoint.