

Rudd on the road to disaster

The 1979 oil shock, the great French political scientist Raymond Aron noted that in crises, governments usually had little to fear from Oppositions but everything to fear from themselves. Only rarely did governments display the intellectual rigour to adapt to the new circumstances. Their tendency, catastrophically evident in the presidency of Valery Giscard d'Estaing, was to retain commitments that were even more economically costly than when first made. Emerging difficulties then led to half-baked populism, with all its long-term costs.

Kevin Rudd could teach Giscard d'Estaing a thing or two.

Rudd's errors are not merely the odd concession to economic folly, they go to the core of our economic prospects.

How can one justify reducing labour market flexibility when it will determine whether millions of Australians are condemned to unemployment? Rudd is fond of quoting Olivier Blanchard, the chief economist of the International Monetary Fund. Only a few years ago, Blanchard found that unfair dismissal laws increased the duration and severity of unemployment, in a result confirmed by a vast empirical literature.

How can one justify an emissions trading scheme that imposes large costs for purely symbolic benefits? Originally, the Government, adopting Churchillian tones, portrayed those costs as the white man's burden. That wore thin, not least because Rudd and Penny Wong look less like heroes than like dentists who might convince us to sit in the chair, but not to seek certain death on the barricades. Predictably, the replacement rhetoric was that the scheme wouldn't hurt a bit. Now the scheme's defenders are reduced to saying it could be worse.

As for the national broadband network, the Government seems intent on making its predecessor's policies look good, a feat I considered to be beyond human ingenuity.

The Coalition merely wasted time and money. This Government seems determined to wreck the network we have. Stephen Conroy is poised to try what no country has seriously contemplated: undertaking a complete revamp of the incumbent's network against the incumbent's active opposition. This involves huge costs and risks for users, especially in country areas, for Telstra's shareholders, and for taxpayers, who will bear the project's inevitable and mounting losses. If the Government doesn't like Telstra, so be it. But if it wants to level the Telstra house to the ground while building a house of its own on remnants, then the honest course of action would be to buy

back Telstra. Anything else breaks faith with millions of Telstra shareholders, endangers service quality and places an unconscionable burden on taxpayers.

The NBN is only the largest of the Government's ill-conceived ventures. Rather than pursuing genuine regulatory reform, which would remove disincentives to invest in infrastructure, the Government's Building Australia Fund is allocating billions of dollars to projects that would likely fail any serious cost-benefit analysis.

As for the Government's car plan, the only hope is that the US industry will collapse before it can get its hands on Australian taxpayers' hard-earned dollars.

Finally, debate will continue about whether the stimulus packages were justified but there can be no debate about whether the associated spending programs make sense. They don't. The principle that taxpayers' funds should be used only where the benefits outweigh the costs has been ignored.

Consider this. The funding for schools specifically prohibits money being used to install air-conditioning. Yet many studies reveal that intense, prolonged heat reduces learning productivity. As a result, school halls will be repainted while education continues to suffer.

Ultimately, all government spending must be paid for from taxes that have high economic costs. To claim that Keynesian multipliers create magic puddings that can make this all come good is nonsense on stilts. A dollar misspent is a dollar misspent, and reduces incomes by at least that amount. The employment "created" by that dollar, when it could have been used for more worthwhile alternatives, is part of the waste, not a benefit. The quality of public expenditure is therefore crucial and on this count alone the Government's record is distressingly poor.

Lack of transparency makes the Government's record all the poorer. John Faulkner promised full disclosure. In fact, disclosure has been pitifully inadequate. Access to the modelling underpinning FuelWatch: refused. Access to the model used to evaluate the ETS: refused. Access to the cost-benefit studies underpinning the NBN: refused. Access to the Building Australia Fund's project appraisals: refused. Access to the Treasury's assessment of alternative stimulus packages: refused.

This makes a mockery of democracy, whose virtue, as the historian and philosopher R.G. Collingwood argued, lies in forcing governments to operate "in the open air, and not as a post office distributing ready-made policies to a passively receptive country". This Government seemed full of policy wonks who would bring a fresh breath of serious expertise. Unfortunately, it has proven far

more adept at politics than at policy. Roosevelt too won many elections, but he did so by schemes that prolonged the Depression. And some of those schemes, such as the introduction of massive farm subsidies, imposed huge, enduring costs on the world economy.

Luckily, Australia is too small to do the world much harm. But history shows we have a rare genius for hurting ourselves. And there is no surer way of doing so than through public policies that are poorly conceived and wasteful. Rudd and Wayne Swan know that: it's time they acted on it.