The Howard Years Were no Golden Age

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If Tony Abbott is serious about the Opposition's claims of economic competence, he should stop harking back to the Howard years as he did yesterday at the National Press Club - and here's why.

"The only foundation for a successful country is a strong economy", said Tony Abbott in his National Press Club address yesterday.

That much is uncontentious, but his claim that previous Coalition governments had delivered sound economic management was outrageous.

"Australians can be confident that the Liberal and National parties will provide good economic management in the future because that is what we have always done in the past," he said. "We have done it before and we will do it again."

That's a wild statement. The Coalition has had the fortune to hold office in good economic times — including the postwar boom of the 1950s and 1960s and the period from 1996 to 2007 when the Howard government enjoyed the dividends of the Hawke-Keating economic reforms, and when the world economy was enjoying a long speculative-driven boom. Good luck, perhaps, but not good management.

In fact he went on to praise the Howard government specifically, saying: "16 members of the current shadow cabinet were ministers in the Howard government which now looks like a lost golden age of reform and prosperity."

If he were serious about the Opposition's claims of economic competence, he would hardly mention service in the Howard ministry as an endorsement. The Howard government's economic report card is overall a dismal one.

To start with its successes, it did chalk up two achievements. The most significant was the Goods and Services Tax. It had the courage and good sense to ignore strong opposition and distorted claims about its effects, to dismiss partisan claims of "broken promises", and to negotiate reasonable deals with minor parties. (The Gillard Government's gutlessness on poker machine reform stands in strong contrast.)

Its other and less controversial reform was to make the Reserve Bank significantly more independent of executive government. This brought Australian practice more into line with other developed countries.

In contrast to these reforms, there are four distinct areas of clear economic mismanagement.

The first relates to the claimed virtue of leaving the books in surplus — a surplus of 4 per cent of GDP when it left office. Indeed the Howard government did achieve a series of surplus budgets: that is not very difficult in a time of strong economic growth which delivered very high tax revenues.

But the Howard government also left Australia with significant liabilities in terms of our physical and intangible assets — our common wealth. It neglected our surface transport — our interstate roads, railroads and urban public transport. It starved our tertiary education sector of funds. It neglected investments which could help us cope with the challenges of water shortages, climate change and fossil fuel depletion. In short, it let fiscal impression management displace sound economic management, and directed political attention to only one side of the public balance sheet, the debt side, while ignoring the asset side. If the Howard cabinet had been the board of a publicly listed company, the shareholders would have thrown them out for weakening the company's asset base.

Lest we ascribe this incompetence solely to the Coalition, the Gillard-Swan Government has a similar fiscal obsession, with the promise of a balanced budget in 2012-13, even while it has done far too little to rectify the infrastructure deficits it inherited from the Howard government. In any event it is foolish to promise a balanced budget at a time of possible global recession.

The second and related mismanagement was to squander the proceeds of economic growth on what has come to be known as "middle-class welfare". In a growing economy with reducing unemployment the need for welfare payments should have reduced, but welfare payments (as a proportion of household income) stayed at historically high levels.

Some concessions, such as the incentives for private health insurance and the abolition of taxation on self-funded retirees, were absolutely indefensible. Others were an attempt to shore up people's incomes as the economy lost its capacity to provide well-paid jobs. Australia's labour productivity (as measured by the gain in GDP per hour worked) peaked in 1996, and has been in decline since. In 1992, well before he was elected, Howard said the Australian economy needed more "dead end jobs". He certainly kept that promise.

The third piece of economic mismanagement was to do away with the Hawke government's reforms to capital gains taxation — reforms that had established reasonable neutrality between the taxation of income from capital gains and from other sources. The 1999 Howard changes, urged by banking executive John Ralph, halved the rate of capital gains tax on short-term financial speculation, while disingenuously increasing the rate of capital gains tax on long-term patient investment. These changes, in encouraging financial turnover, were clearly beneficial to the finance sector, but they were hardly of benefit to the real economy.

The fourth mismanagement was to allow housing price inflation to run unchecked. There were many drivers of housing price inflation, including high immigration and urban pressures (resulting in part from infrastructure neglect). But the Howard government did nothing to quell this inflation.

It did not roll back the incentives for "negative gearing" and it increased financial assistance for first home owners. Like profligate governments in the past, it thought it could solve supply problems by throwing public and private money at them, not realizing that the inescapable result is inflation. House price inflation has had obvious effects on affordability, and it contributed to a huge growth in household debt, which rose from 70 to 140 per cent of household disposable income during the Howard years. Note that in all his prattling on about debt, Abbott never mentions private sector debt — nor does Wayne Swan for that matter.

Not listed under these failures is the Howard government's ham-fisted attempt to deregulate the labour market. Instead of addressing rigidities which were impeding productivity, the Howard government in its final term went on a rampage of removing workers' bargaining powers. Had WorkChoices not been reversed by the incoming Labor Government, we would be heading down the USA path of even worse inequality than we have now, and even greater stresses on our public budgets to divert money to poverty alleviation at the expense of important government services. Abbott seems to have seen the folly of WorkChoices, most probably on political grounds, for he has shown little understanding of the economics of labour markets — or of any other markets for that matter.

Tony Abbott has done nothing to establish his, or his party's economic credentials. He seems content to coast on the public perception that the Coalition is more competent at economic management than Labor.

It's a perception fed by sections of the media which are clearly partisan, by other media such as the ABC which suffer from the postmodern notion that all "opinions" are of equal value, and by the Government itself, which has uncritically taken on so much of the Howard agenda, and has made far too little progress in repairing the damage left after a decade of poor economic management.