Why Peter Costello Should Get a Hobby

16 Mar 2012

John Howard's treasurer might be convinced that he's the man to chair the Future Fund but Ian McAuley isn't so sure Peter Costello has got what it takes.

Is Peter Costello one of those able politicians who were unlucky to have missed the tide which would have taken him, and his country, to great fortune? Or does his time as treasurer in the Howard government reveal his limitations?

On Costello's watch there were, indeed, two significant economic reforms. One was the replacement of a ramshackle and inequitable wholesales tax and a number of petty state taxes with the goods and services tax. That was what may be called "politically brave", for it almost brought down the Howard government. The other was to make the Reserve Bank largely independent from Executive Government — also politically brave, for it opened up the possibility of a rise in interest rates at an embarrassing time, as happened shortly before the 2007 election.

When we look at other aspects of his report card, his record is less impressive. Yes, indeed, his budgets were generally in surplus, and by the time the Howard government left office the Commonwealth had an accumulated surplus of 4 per cent of GDP. But the Howard government had the extraordinary good fortune of coming into office as the economy was coming out of a deep recession, when the economic reforms of the Hawke-Keating era were paying dividends, and when a global financial boom was in the full swing of drunken exuberance. For Costello, it was like being appointed as manager of a toy shop a fortnight before Christmas.

While he left us with a little money in the bank, he left us with some deep liabilities. Much of the revenue which poured into the Howard government's coffers went straight out again into middle-class welfare — child and family allowances, subsidies for private health insurance, and outrageously generous concessions for superannuation. Its legacy is a sense of entitlement which sees people with six-digit incomes believing they are worthy of social security support. That generosity came at the expense of necessary investments in education, transport infrastructure and environmental protection. Our shared assets, which we need to ensure our future prosperity, were run down, and that depletion, while not showing on our fiscal accounts, is a deep liability which will take many years to pay off.

One of the worst decisions in Costello's time was a change in the capital gains tax arrangements. We had a capital gains tax regime which, through indexation, achieved neutrality between income derived from capital gains and income derived from other means. Under pressure from the finance sector, this was changed to one which halved the rate of capital gains tax for short-term "investments" (in reality financial speculation), while, through abolishing indexation, actually penalised those who made long-term investments. Costello's excuse was that indexation was too complex. It's a telling statement when someone who claims economic competence finds the mathematics of division to be complex.

Treasurers should be evaluated not only on what they achieve, but also on what they overlook, and in Australia's case that was the huge expansion in private debt, particularly housing debt, and the associated growth in house prices. Housing debt increased from around 60 per cent of household income in 1996 to 120 per cent of household income in 2007. This debt largely financed an inflationary boom in house prices, which led to an illusion of wealth among those who owned houses, and a struggle for those seeking to buy houses. Only now is the sobering reality starting to hit those who became so over-committed to housing debt.

Finally there was the "WorkChoices" policy. If an economist were challenged to find a way to reduce our productivity while increasing already-widening labour-market inequities, they couldn't have thought of a better means than "Workchoices", which was designed to take us back to a 19th century system of employment based on class conflict. There is a case for increasing labour market flexibility, but there are better means than removing collective rights.

Costello may point out that as a member of a team he had to go along with these poor decisions — the Nuremberg defence. Given the autonomy of a Prime Minister or Chairman of the Future Fund he could claim that he would do a better job. But that would be a poor defence, because it would be an admission of weakness. If he was unable to stand up to Howard, could he, as Chairman of the Future Fund, stand up to other prime ministers — Gilllard, Abbott or whoever else may be drawn to unwise economic decisions?

Costello can make a contribution to the Future Fund as a board member. He brings experience, but his record does not reveal the economic competence or strength required of a Chairman.