

5. The economy

To understand the Howard phenomenon we need to begin with Howard's central claim—his key election message—that the economy is what really matters. The Howard message repeated over and over again is that the economy is his biggest responsibility and that Australians trust him to do it well. The other side of the coin is that Labor cannot be trusted as economic managers.

John Howard has been widely acclaimed for his strong economic leadership. His supporters point to the large number of Australians enjoying prosperity; to unemployment levels, which are at their lowest for thirty years; to the share market, which continues to climb; and to the extended government welfare to families, which has gone some way to addressing family poverty.

How successful is his management of the economy? How much of the prosperity of the past eleven years can be attributed to his economic management?

There are those who argue that our prosperity and stability over the past ten years has been largely due to the tough Hawke–Keating reforms (tariff reduction/removal, floating the dollar, privatisation and deregulation). They would argue that Howard has, in fact, been the main beneficiary of these hard Labor government economic reforms.

There are those who argue that good luck, rather than strong economic management, meant that Howard came into government at the start of a long international economic boom, and that he was blessed by a continuing series of booms in Australia that were largely outside his control: the information technology boom, the housing construction boom, the boom in domestic consumption, the boom in commodity

prices, record terms of trade, and the economic benefits created by China's very cheap consumer goods.

Part of the success of our economy is due to Peter Costello formalising the independence of the Reserve Bank. This means that even if he wanted to, Howard could not intervene in interest rate settings for his own political purposes. Management of this part of our economy has been less politicised by being handed over to independent experts who are responsible for keeping interest rates within a range set by government.

Perhaps one of Howard's most famous economic initiatives was introduction of the goods and services tax (GST), which analysts and commentators generally see as a positive move to broaden the tax base. Most people saw his labour market deregulation in a positive light, until he used his recent Senate majority to push through his extremist Work Choices legislation. His Welfare to Work policies are seen as important steps to getting people off pensions and back to work but, like Work Choices, have been criticised for going too far.

Interest rates have always been important to Howard. Despite Howard's promise to keep them low, Australian interest rates are among the highest in the developed world.¹

Cost shifting

Perhaps history will judge the Howard government most harshly for its cost shifting from the public sphere to private individuals. Services that are efficiently provided by government were cut in order to reduce the government deficit.

For example, one of Costello's first actions as Treasurer was to cut funding to the dental health program for pensioners. Today, the poor find it almost impossible to get dental care. In doing this the Treasurer saved the government \$150 million.

While noting a saving on the profit and loss account, the government balance sheet failed to record the loss of a national asset of high levels of dental health in our pensioner population.

Are these the sorts of political and economic values Australians want?

Housing affordability

Home ownership has been an important Australian aspiration. It involved people in a 'forced savings' plan and provided an important security as people aged. Today, housing affordability is at a record low: buying a home is out of reach for many young families.

The December quarter 2006 HIA/Commonwealth Bank Housing affordability index is at its lowest since the index was established in 1984 with an average Australian first home buyer now needing in excess of 30 per cent of their disposable income to service minimum monthly payments on a new mortgage.²

How did this happen?

In 1999, Peter Costello took a dramatic step that benefited the rich. He halved the tax payable on capital gains. If, for example, you made a \$200,000 capital gain on the sale of an investment property, with Costello's change, only half (\$100,000) of that profit was taxable.

As economist John Garnaut later wrote in the *Sydney Morning Herald* in July 2004, the top 5 per cent of income earners received 50 per cent of the capital gains tax cuts.³

Costello did this in order to bring our capital gains tax more into line with overseas tax regimes. The policy had nothing to do with the interests of the Australian family and first home buyers. Instead, it punished them severely.

The Reserve Bank and the Productivity Commission in 2004 warned the government that the combination of weak capital gains tax and negative gearing laws were fuelling Sydney's property boom. Investors entering the market were a major contributor to the boom. But the government ignored the advice. Instead, government action engineered a market overcrowded with buyers, with the resulting bubble in house prices.⁴

The sharp rise in property prices pleased homeowners who saw their wealth double over a few years. As a result, many have become ‘rusted-on’ Howard supporters while the poor lost any chance of owning their own home.

Undeterred by the plight of families, Peter Costello recently further inflated the bubble by removing all capital gains tax on residential investment for foreign investors. This provides an incentive for overseas speculators to enter the housing market and compete with families.

Eleven years of manipulating the Australian tax and industrial relations systems by the Howard government has meant that the significant increase in the wealth enjoyed by the ‘average’ Australian has not been shared.

Tax cuts, which are sold as being for the good of all, overwhelmingly benefit the rich. Cuts to services—the other side of tax cuts—overwhelmingly hurt the poor and middle classes. As a result, Howard and Costello have entrenched unprecedented levels of inequality in Australian society.

For evidence we need only look at the rapidly developing housing crisis. As mortgage and rent levels take bigger and bigger slices of the household budget, basic necessities become unaffordable, and longer working hours rob children of their parents.

By favouring real estate speculation and attacking the basic needs of families, Howard has put greed ahead of family need.

Housing affordability is now such a problem that neither of the major political parties is prepared to address the underlying distortions of the tax system that created it. To do so, would reduce the cost of housing but would also lead to a voter backlash from the many Australians heavily invested in real estate.

Only a politician as brazen as Howard would proclaim this newly entrenched inequality as evidence of good economic management.

Productivity levels

Howard and Costello inherited an economy from Paul Keating where the productivity levels were increasing at 3 per cent a year. After eleven years of Howard and Costello, the rate of increase is down to 1.3 per cent. As Australian Council of Trade Unions Secretary, Greg Combet, said, ‘This is where the Howard Government has not only been asleep at the wheel, it has been lazy and irresponsible.’⁵

A big part of this problem is caused by the lack of public investment in education and infrastructure.

Conclusion

While many see Howard as a careful and shrewd economic manager, they may have forgotten that Hawke and Keating and the Labor party wrought the toughest economic changes, which created the conditions for the current boom times. They may have overlooked the long international economic boom that has accounted for much of our recent prosperity.

While Howard has been responsible for some significant economic initiatives, such as introduction of the GST and his early labour market reforms, he has not been an economic reformer. The housing affordability crisis suggests he is more interested in tax breaks for the rich, than in affordable housing for Australian families. However, the prosperity and economic stability of the past decade have convinced most voters that he has done a good job.

Perhaps his greatest achievement has been to win the battle of public perceptions, where he is seen as being a more trusted economic manager than the opposition.