



The Rage Of The Economics Establishment

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An article on these pages last weekend by this newspaper's economics correspondent, Matthew Cranston, titled "We need reform like we've never seen before" revealed everything that's wrong with what Australians are told about economics. And it reveals why many people were apoplectic when Treasurer Josh Frydenberg dared suggest there were lessons to be learnt from the success of Margaret Thatcher and Ronald Reagan.

Cranston discussed the opinions of prominent current and former advisers to government about what was required to improve the country's economic performance. One of the people whose views Cranston referred to was Bernie Fraser.

As secretary of the federal Department of the Treasury for five years and then governor of the Reserve Bank for seven years, Fraser sat at the pinnacle of economic policy decision-making. After his retirement from the public service, Fraser joined the board of two large industry superannuation funds. If there's a doyen of economic policy in Australia, it's probably Bernie Fraser. (If there were two such doyens it would be Fraser and Ross Garnaut.) If there was an



“Economics Establishment” in Australia, Fraser would be its president.

It would not be unreasonable therefore to assume Fraser’s opinions are not unrepresentative of many, if not the majority of, public servants advising the government on economic policy think. It would also not be unreasonable to assume Fraser’s opinions are not dissimilar to those of many academic and business economists.

Cranston introduced Fraser’s remarks with the following: “He [Fraser] says previous governments have certainly had their chance to reform in the past few decades but have blown it.”

And then Fraser himself says the following: “Howard and Costello had a golden opportunity to use the revenues to invest in productive infrastructure – some of it went to the Future Fund – but really they spent it on tax cuts. They pissed it up the wall even when the economy was building up steam.”

If you’re someone who thinks, as Fraser does, that the government allowing taxpayers to keep more of their own money is “pissing it up the wall” then of course you’re going to be overwrought at the slightest mention of Thatcher or Reagan. In Reagan’s first budget his 1981 Economic Recovery Tax Act cut the top marginal rate of federal personal income tax from 70 per cent to 50 per cent and the lowest rate from 14 per cent to 11 per cent.

The biggest problem with Fraser’s way of thinking about the economy and the role of government is his belief that when the government is cutting taxes the government is “spending” money. No, it isn’t. Only someone who has spent basically their entire working life working for the government could believe that. But this is how government and how people working for the government now think, and it’s an attitude that pervades practically every aspect of economic management and regulation in this country. ASIC officials, for example, are particularly fond of telling taxpayers how fortunate they are to be allowed to manage their own superannuation.

The belief that taxpayers’ money is the government’s money is an idea that’s been around a lot longer than Bernie Fraser. It’s exactly such a belief that Thatcher and Reagan rebelled against. And they also had no truck with the implication of Fraser’s remark that part of the solution to a country’s problems is for the government to spend more money on infrastructure. Maybe sometimes the government should, but more often than not it shouldn’t. No one knows for sure how much the NBN has cost already, and is still yet to cost – it’s a figure somewhere between \$50 billion and \$100 billion. Today only Kevin Rudd would argue it was money well spent, and to this day it’s never been established that such “productive infrastructure” could not have been implemented quicker and more cheaply by the private sector.

The point to remember about Thatcher and Reagan is not only the one Frydenberg made: that their policies were successful. What’s often forgotten about what they did is that cutting taxes was just as unpopular with the Economics Establishment in the UK and the US in the 1980s as it is with the Economics Establishment in Australia in 2020.

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