

NOT SO BIG GOVERNMENT

In responding to *Policy* articles by Andrew Norton and Des Moore, Treasurer **Peter Costello** argues that government spending as a proportion of GDP has gone down. In the articles that follow, **Andrew Norton** and **Robert Carling** reply to the Treasurer's claims

A couple of articles in recent issues of *Policy* have suggested that the Coalition Government has been a big-spending government.

Perhaps your commentators have been confusing Australia with the United States. But lest this factoid gains a foothold, it would be useful to focus on the facts.

Andrew Norton, an intelligent writer, recently wrote a feature article 'The Rise of Big Government Conservatism',¹ which asserted that the Coalition was a big spending government which through large family payments had created a welfare state.

The trouble was that Mr Norton's article was falsely premised.

Among numerous lists of allegedly unwarranted government spending, Mr Norton stated that 'total Commonwealth government outlays during the Howard years declined as a percentage of GDP from 26.1% to 25.2%.'

Declined! Read that again—'outlays ... declined as a percentage of GDP'. This means that the Commonwealth government is now a smaller part of the economy than was the case ten years ago. These are Mr Norton's figures, not mine.

Normally the practice of a commentator would be to take the underlying fact and comment on its meaning. In this case the whole commentary proceeds as if this underlying fact was not the case.

If government has become a smaller part of the economy—which it has, and which Mr Norton's figures accept—you can hardly write an article bemoaning the fact that it has become bigger.

When government has become smaller it takes an awful amount of gymnastics to come out with an article called 'Big Government Conservatism'.

The redoubtable Des Moore last year wrote a similar feature article accusing the government of big spending, big government sins.²

Again, the premise of Des's thesis is utterly negated by a fact reproduced in his own article, namely 'that there has been a decline in total federal spending of about one percentage point of GDP since 1995–96.'

Let us quote that again: '... a decline in total federal spending.' That's what the figures show, but somehow this central fact is steamrolled in pursuit of a negative story which the writers expect people want to hear.

Both writers seem keen to list all the areas where government spending has increased, like family payments, but neglect to mention where spending has declined, which is how the reader's impression jars so much with the central fact.

Peter Costello is Treasurer of the Commonwealth of Australia.

Even if one is frustrated that the size of government should have contracted even further—as both Norton and Moore evidently are, a perfectly respectable position to argue—it doesn't entitle one to create the false claim that government has got proportionately bigger.

Both writers seem keen to belittle the figures showing smaller government, claiming that while it is true it is only due to lower spending on interest payments on government debt.

This is a bizarre attempt to claim that spending on interest payments isn't really spending and therefore shouldn't be counted. Try telling a homeowner that spending on your mortgage isn't real money!

If interest payments don't count then governments that borrow won't have to include their interest payments. This would provide a completely costless way to increase spending.

But the reality is that government debt has to be serviced, and taxes have to be raised to pay interest on government borrowings. One day the capital may even have to be repaid.

This is what makes Australia's achievement even more impressive. We have eliminated the capital debt which gives recurrent savings. This is a structural change which should last for a generation.

No matter how you slice and dice the components of spending, the fact is that they have fallen—not increased—relative to GDP.

In my view these commentators have not only got the story wrong, they have missed a larger and much more important opportunity.

The central story is that Australia over the last ten years has been a standout economy which has retired debt and reduced spending. We have proved that smaller government can work.

Our growth rate has been one of the strongest in the developed world over the last ten years.

We have grown strongly despite massive droughts, a US recession, and an Asian financial crisis, all of which would have put us into recession in previous times.

Our credit rating has been restored to AAA standing, the OECD says that our reforms are a model for other countries, and our government is now debt-free.

We are now the second lowest government spending country among the 28 countries in the OECD. And that means lower than every developed economy other than Korea.

Our government is smaller than the US which has a spending ratio about 2.5% of GDP larger than ours.

These are the results of implementing a liberal philosophy. It is hard to think of where CIS will find a better real world example.

The reduction in government spending (and corresponding reduction in tax), along with the removal of industry protections, the liberalisation of labour laws, and the privatisation of government enterprises have all contributed to the success story.

Of course people can be critical that the progress should have been faster or greater, but nevertheless the overarching policy direction has been towards this agenda.

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There is no need for CIS to feel it must be a permanent opposition. Every now and then it can enjoy a little success.

This Australian success story is one in which liberals can and should share credit.

Australia reached an historic point in 2002 when it passed the United States to become a smaller spending government. Americans can now look to Australia as a model of leaner government.

But for all those people who used to hold up the US as an example of lean government, this is a remarkable story.

Endnotes

- 1 Andrew Norton, 'The Rise of Big Government Conservatism', *Policy* 22:4 (Summer 2006–07).
- 2 Des Moore, 'When will the Leviathan Fade Away?', *Policy* 22:3 (Spring 2006).