

PM's economic shambles

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The government of Prime Minister Kevin Rudd has not lived up to its early promise. Rudd is not an economic conservative; the surplus is gone, and public debt is rising. To be fair, there was an economic crisis and the Rudd government likes to point to that crisis in explaining its poor performance.

Research by Alberto Alesina of Harvard University suggests that tax cuts are better at stimulating economies than spending increases. Similarly, cutting spending is better for reducing debt and deficit than tax increases. The Rudd government has been doing the exact opposite; it needed a good story to justify itself.

The federal budget papers included a graph that showed that those economies that had enacted large and timely fiscal packages subsequently outperformed growth expectations. So the policy the Rudd government adopted appeared to have worked well. If correct, this graph could vindicate the decision to "go early, go hard, go household.

But the graph was not correct. In Senate Estimates hearings on June 2, David Gruen, executive director of the Treasury Macro-economic Group, read a prepared statement admitting that the graph and the explanation to it contained errors.

The graph showed data for just 11 of the G20 economies. The original data source provided data for 19 economies and when all 19 economies are included there is no statistical relationship between the size of stimulus packages and subsequent growth expectations.

In the profession we call this data snooping - only reporting the data that supports a desired result. It looks like Treasury fiddled the numbers. Treasury officials deny this, they claim a coding error led to an erroneous conclusion. They then truncated the sample, with the same result, and published that in the budget papers. A subsequent quality control check failed to pick up the coding error, although checking for so-called outliers should be standard practice.

This isn't a debate about the meaning of the numbers, or even whether the research method is appropriate. Treasury was unable to accurately transfer data from a database to an econometrics package, and its quality control process didn't pick up such a basic and obvious source of error. How many other errors has its quality control process failed to pick up?

The budget papers, now known to contain erroneous information, were issued by Treasurer Wayne Swan and Finance Minister Lindsay Tanner, who have not accepted responsibility for the error nor made any statement to the Parliament to clarify it. The budget papers contain false information that would be of immense political benefit to the government.

This is just one of many mistakes. In the past month we discovered the Rudd government doesn't know how much tax the mining industry has been paying. It was caught quoting an American working paper out of context. What is most surprising is that nobody thought to ask, How come mining firms only pay 13 per cent in tax? Nobody picked up the phone to ask the Tax Office if those numbers were correct and if so, why? When challenged, Treasury secretary Ken Henry made the ridiculous argument that taxable income wasn't an appropriate measure for calculating how much tax is paid and that some vague measure of "economic income" should be used.

Before that we saw a graph in the Henry tax review purporting to show that tax revenue from mining had fallen - yet that graph excluded corporate income tax. Then there are the pie charts in the Treasurer's "economic note" that nobody wants to claim ownership of. The list goes on.

Economic management is in a shambles. The rot set in early with a very confused narrative about inflation genies. Then we saw the over-the-top response to the global financial crisis. Cash handouts transformed private debt into public debt. The school building program has been underwhelming and expensive. The home insulation scheme has turned homes into fire hazards.

Economists will debate for years to come whether the fiscal responses to the financial crisis were appropriate. Early evidence suggests that a lot of money has been wasted. Government simply cannot spend large sums of money both quickly and wisely. Taxpayers have good reason to be concerned about that waste and expect a better justification than a dodgy graph.

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