

# Taxpayers the real victims of Labor war



**P**EOPLE interested in politics are likely to tune into *The Killing Season* on ABC TV tonight. We have been fed titbits already.

Julia Gillard says that Kevin Rudd was a bully. She details an occasion when he stood over her and tried to intimidate her. He says she made that up.

One of their predecessors as Labor leader, Mark Latham, has pointed out that if she felt bullied by this man it didn't stop her from recommending the whole of Australia vote for him and make him prime minister. Latham says she is a hypocrite. Rudd, he says, is a narcissist.

Anyone who has dealt with Rudd knows he has a very healthy regard for himself and his abilities.

The series is pitched as *The Killing Season* because it will recount how Gillard killed Rudd and how he knifed her back and how that killed off the Labor government. See, it was all a matter of dysfunctional relationships.

There is no doubt these were



**PETER  
COSTELLO**

very dysfunctional days — I was there for a good part of them — but I wouldn't want people to think that these were otherwise good governments.

The ABC won't want to depict Labor in an entirely negative way out of respect for the views of the bulk of its day-to-day audience. So it will try to portray some "successes" of the period. That adds pathos to the whole saga. We will be invited to imagine how wonderful things would have been if only people had been nicer to each other.

Rudd deserves credit for the apology to the stolen generation. It has not improved indigenous disadvantage, but it was an act of generosity that had the potential to heal some of the rancor felt by

Aboriginal leaders. Rudd ratified the Kyoto Protocol on carbon emissions. He could do that because the previous government had negotiated a good treaty for Australia. But there has been no international agreement since. Rudd lost control of Australia's borders, which was completely unnecessary. So the big legacy claim that Rudd and the series will make tonight is that Rudd and Labor "saved" Australia from the 2008 financial crisis.

Remember that when Rudd was elected he was, he claimed, an economic conservative. Yet in 2009 the government increased spending by nearly 13 per cent, an increase that had no precedent in modern economic management except for the height of the Whitlam mania.

He did it to "save" Australia, he said. Over two years the Rudd government lifted spending, as a proportion of the economy, by three full percentage points. We have never balanced a Budget since. It is still at that level today.

The Treasury produced a paper

to show the spending increase would only be "temporary" and the Budget would be back in balance by 2015. But once the spending was turned on, it was hard to turn it off. We have racked up \$280 billion in cumulative deficits since those "temporary" increases — 20 per cent of GDP, and there is another four years of deficit to go. It has been an extremely costly experience.

**D**ID spending "save" Australia? The first thing to remember is that this was a financial crisis. In the United States and in Britain, financial institutions were collapsing. It was not the case in Australia. No bank made a loss for one quarter. We had a well regulated prudential system with a dedicated regulator, APRA. The government was able to guarantee banks on wholesale borrowing markets when it was needed because it had an AAA credit rating to back it.

If the banks had been unable to continue credit lines for companies, that would have

**Whether it was roof batts, school halls, pensions or parental leave, they always agreed on more spending.**

impacted on the real economy. But they could and did. Government spending put more money into household budgets but there is no evidence they spent it. In fact quite the reverse. The real stimulus to the Australian economy came from soaring terms of trade: the China effect.

Even at the trough of the downturn, Australia's commodity prices were still higher than they had been at any time before 2007. And they surged and peaked at all-time records in 2010, just about the time that the killing season got into full swing. Of the era, the part I like best is the Treasury explanation of the benefits of the stimulus in the 2009 Budget. It showed that without "temporary" stimulus, unemployment would peak in 2010

at 10 per cent but with it the outcome would only be 8.5 per cent. Do you know what unemployment turned out to be in 2010? It was 5.25 per cent.

In other words, Treasury completely overestimated the effect of the crisis then completely overestimated the response required to deal with it. Spending didn't make the difference. What really mattered was we had a strong and well run financial system. And far from following the US into a downturn, we were following China in a boom.

Don't expect to hear that from Rudd or Gillard or the various Treasury officials on tonight's program.

There was one thing Rudd and Gillard always agreed on. Whether it was roof batts or school halls or pensions or Gonski education funding or parental leave, they always agreed on more spending. The real killing season was on the taxpayer.

**PETER COSTELLO IS A FORMER  
FEDERAL TREASURER**