

Bad luck enters with a boom in parallel reality that is Wayne's world



PETER COSTELLO

Five years ago the prices of Australia's exports began rising sharply. The price of iron ore hit about \$US30 a tonne and thermal coal about \$US50. Australia had not seen export prices like that in a very long time.

The federal government was running budget surpluses. It had paid off its debt so it established a sovereign wealth fund – the Future Fund – to save for the future. This was to prepare for a time when things were more

normal and to cover the costs of the ageing population. About \$60 billion was deposited into it.

Not everyone shared the prosperity of the mining industry, but by using increased revenue from mining profits to cut income tax, the proceeds of that strongly profitable sector could be shared with all Australians through an increase in their disposable income.

The policy did not meet with unanimous approval. Some thought we should save more; some thought we should cut taxes harder.

One of the persistent critics was Labor's treasury spokesman, Wayne Swan. The Coalition was "wasting the boom", he complained. Swan was never too specific about what the government should have been doing, but he left the impression it should have been spending on various pro-

jects which, in fact, meant saving less. He returned to the theme as recently as two weeks ago, when his spokesman declared: "Peter Costello can rest assured that the government will not follow his example by wasting the proceeds of the mining boom."

I thank them for their interest. But I must say I cannot rest, assuredly or at all, with what is going on at present.

This year the iron ore price is nudging \$US170 a tonne (about five times what it was when the Coalition was "wasting" the boom) and the coal price is about \$US130 (nearly three times the price of five years ago). If you look at a graph of historical prices, we are at the peak of Mount Everest. The rise of 2006 looks like Monticello – a small rise visible only because conditions were quite depressed before it.

The Reserve Bank's index of commodity prices shows an all-time high in March 2011. The index is nearly double where it was in 2006 and triple the levels of the late 1990s. Adjusting back into Australian dollars it rose 32 per cent in the past year.

And mining profits are super

entered prosperity in Australia's terms of trade. This is bigger than the gold rush of the mid-19th century.

Since it was apparently wasteful to run budget surpluses, build a savings fund and cut tax in 2006, Swan could show us how things should be done now we are in a real boom. He could,

contribution to the Future Fund. And although he has found a way of sharing the pain of the Queensland floods with a flood levy, we should not expect to share the prosperity of the mining boom through any tax cuts.

There is reality. And then there is Wayne's world.

In Wayne's world a boom is something that happens to others, not to him. In his world, others find rivers of gold, but for him the river never rises.

In Wayne's world, Labor is a superior economic manager which runs into bad luck all the time, while Liberals are poor financial managers who waste opportunities and somehow get good outcomes when the dice fall their way. It's a weird place inside Wayne's world.

In that world, the government will not waste the proceeds of a mining boom on things like a more competit-

ive tax system or a sovereign wealth fund when it can spend on insulation batts and local school halls.

In this parallel reality, no one bothers to ask how we managed to balance the budget and pay off government debt when there was no boom, and why we can't do either now that our trading conditions are at the peak of the cycle.

It is weird to hear the government claim it was wasteful to save when our circumstances were poorer than they are today, but somehow responsible to borrow now.

It's possible that this is all spin and Swan doesn't believe it. On this occasion I hope so. If he has convinced himself it is true, it is more than weird. That is really dangerous.

Peter Costello is a former Liberal treasurer.

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strong. In 2006, BHP's profit after abnormals was a massive \$10 billion. This year it reported that profit for just the first half-year.

We are not in normal times. We are living through a period of unpreced-

but apparently he will not, because last week he gave a pre-budget speech lamenting how hard everything had become and saying that we should not expect too much, not even a balanced budget in May, let alone a substantial