

in brief...

Ozonomics

Australia's extraordinary period of prosperity has allowed the incumbent government to position themselves as economic superheroes. But as **Andrew Charlton** warns in a new book, we should always adopt a sceptical attitude to any politician's claims about their contribution to national economic success.

The most popular misconception in economics and politics is that if the economy is humming along, the government must be doing a good job – it must be a capable economic manager and its policies must be working.

When the economy is booming, politicians encourage the public to believe that they tightly control the economy. The idea that they hold the fortune of the nation in the palm of their hands appeals to them, and they want the public to take the strong economy as evidence of their skill and omnipotence.

The media too are susceptible to this fiction because we like to have someone to blame for our hardships and praise for our success – heroes and villains make good stories.

The truth, however, is that politicians have much less control over the economy than they would have us believe. Certainly, there can be policy successes and policy failures, but more often than not the condition of the economy is determined by factors outside the control of politicians.

The economy is much like a little boat in a wide sea. Whether the trip is calm or rocky depends much more on the weather and the wash from the bigger boats than anything that might be done internally. If the weather is bad, you cannot blame the skipper for the bumpy ride. In fact, unless you know a lot about sailing, it's hard to know whether the skipper is doing a good job in bad circumstances or whether he's making it worse.

The same is true of skippering the economy. If you ask people about the state of their economy in the last five years of the global boom, they will remember the low

unemployment rates, the low inflation, the low interest rates and the general mood of affluence that suffused the world. Incumbent leaders have generally turned this prosperity into stunning electoral success.

But most people are much sketchier on the following question: 'Which of our leader's policies, if any, can actually be shown to have produced the boom for which he has received so much credit?' This question is critical to the issue of whether a government's leadership is responsible for the prosperity it presided over – or whether that prosperity was produced by the policies of previous governments or the influence of benign international economic forces.

In Australia, the incumbent conservative government has benefited from an extraordinary period of prosperity, one that makes even the recent success of the British economy look modest by comparison. Australia has had 16 years of continuous expansion during which its wealth has doubled, labour productivity increased by a half and jobs increased by a quarter so that unemployment is at a 33-year low of 4.3%.

Australians have generally chosen not to think too hard about where this prosperity has come from. They have richly rewarded Prime Minister John Howard at the ballot box without looking too closely at causes and effects.

But a more accurate analysis of different governments' contribution to Australia's 'miracle' economy involves recognising that economic policies act with a lag, so the prosperity reaped today may have been sown many years before.

In Australia the battle for the title of 'better economic

Letting politicians take credit for a booming economy distorts the public debate about economic policy



Economic success is a complex combination of long-term policies and global circumstances

manager' has become one of competing narratives. Howard and his finance minister Peter Costello, backlit by the conspicuous boom, have an obvious advantage over the Labor Party's story, which is unflatteringly silhouetted against the recession they presided over.

Labor says its macroeconomic framework in the 1980s and microeconomic reform in the 1990s created the bedrock for later success and that the recession was the price to be paid for progress.

In contrast, the conservatives say the Howard government's decisions to pay down the national debt and deliver budget surpluses have directly produced the long boom. Howard has taken credit for the prosperity and used it to position himself as an economic superhero deserving of complete trust from the electorate.

Every government's claims about the economy deserve thorough scrutiny because what we believe about the foundation of our wealth makes a great deal of difference to how we should pursue our future. If, as our leaders would have us believe, the prosperity of Britain and Australia has been due to the superior performance of our leaders, then our job as citizens is merely to continue passively to re-elect those leaders.

But if our success is a complex combination of long-term policies and global circumstances, then our challenge is to ensure we continue constant public debate with a view to finding the right policies to sustain our position in a changing world. Letting politicians take credit for a booming economy that is not of their making distorts the public debate about economic policy.

Andrew Charlton is a research economist in CEP's globalisation programme. His new book *Ozonomics: Inside the Myth of Australia's Economic Superheroes* has just been published by Random House.

