

# *Jobs and Growth... And a Few Hard Numbers*

*A Scorecard on Economic Policy  
and Economic Performance*

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**BRIEFING PAPER**

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## Summary: The “Economy” is More than “Business”

Voters typically rank economic issues among their top concerns. And campaigning politicians regularly make bold (but vague) pronouncements regarding their competence and credibility as “economic managers.” In popular discourse, economic “competence” is commonly equated with being “business-friendly.” This is not surprising, given the economic, political, and cultural influence of large businesses in our society, and the business-oriented nature of most economic reporting and commentary.

However, the economy consists of more than just private businesses – and certainly more than the large businesses which attract the main attention from politicians and reporters. Other stakeholders are at least as crucial for powering real economic progress: including workers, households, governments at all levels, small businesses, public and non-profit institutions, NGOs and the voluntary sector, and more. So being “business-friendly” is no guarantee that the real economy (measured by employment, output, and incomes) will automatically improve. Having a more complete understanding of all of the different ingredients required for economic progress is necessary, in order to properly analyze the likely impact of specific measures. And whether those measures are endorsed by the business community may have no relation to their actual effectiveness.

The current Australian election campaign features strong claims by the present government about its superior economic credentials, and its self-proclaimed plan to stimulate more jobs and growth in future years. The centerpiece of this “plan” consists of measures to enhance the after-tax profitability of private businesses (through a phased-in reduction in the company tax rate to 25 percent from 30 percent), and the after-tax income of higher-income households (through significant personal income tax cuts for those earning over \$180,000, and modest savings for those earning over \$80,000). The underlying assumption is that by making Australia more attractive for businesses, and for the high-income individuals who are the leaders and major owners of those businesses, the whole economy will respond positively. This argument is paired with dire warnings about what will happen to Australia’s economy if any other party is elected – and surprising claims that anyone opposed to these tax cuts is anti-business and anti-growth.

In economic history, however, the correlation between “business-friendly” policies and the performance of the real economy is not at all apparent. Well-rounded economic progress – of the sort measured by employment, output, rising living standards, and financial stability – requires more than self-proclaimed “leadership” and “competence.” And it requires more than a favourable, compliant attitude toward the business community. Instead, economic progress requires that all sectors of the economy (business, workers, consumers, governments, and more) be actively engaged and pulling in an expansionary direction. And finding the right policy mix to align those forces is more complicated than targeting policy favours to large businesses and well-off

individuals, on the assumption that their enhanced prosperity will trickle down to the rest of the economy.

To demonstrate the lack of correlation between a government’s stated economic orientation, and the actual performance of the real economy, this briefing paper compiles historical data on twelve standard indicators of economic performance: including employment, unemployment, real output, investment (of various forms), foreign trade, incomes, and debt burdens. Consistent annual data is gathered going back to the 1950s, allowing for a statistical comparison of Australia’s economic record under the various post-war Prime Ministers. We identify eleven distinct periods of government, corresponding to every Prime Minister who served at least a full year in office since Robert Menzies. We then compare Australia’s economic performance under each Prime Minister, on the basis of these twelve selected indicators.

The broad historical story told by this empirical review is not novel. Australia’s economy progressed vibrantly in the early postwar decades, slowed down in the late 1970s, and then picked up momentum again in the 2000s. The Global Financial Crisis (GFC) in 2008 damaged Australia’s performance badly, and the country has yet to recover its previous trajectory.

What may be surprising, however, is that there is no obvious correlation between these respective swings in Australia’s economic history, and the policy orientation of the government that oversaw them. Australia’s strongest growth occurred in the early postwar decades when taxes were higher (especially on businesses and high-income individuals), collective bargaining coverage was near-universal, and government programs (and the taxes to pay for them) were growing rapidly. According to current trickle-down jargon, this should have sparked economic disaster. Yet these policies coincided with strong investment, low unemployment, rising real incomes, and modest debts.

More specifically, this statistical review indicates that the present government, regardless of its business-friendly credentials, has in fact presided over one of the weakest economic periods in Australia’s entire postwar history. The government’s claim to superior economic competence is not supported by empirical reality: ten of the twelve indicators considered in the analysis deteriorated under its watch. The government took office in 2013 promising to stimulate one million new jobs and boost economic growth: by cutting red tape, reducing the deficit, reigning in unions and labour market regulations, and implementing other business-friendly measures. Yet by most concrete indicators the economy has clearly deteriorated since it took power. Indeed, when the eleven postwar Prime Ministers are ranked according to the respective indicators, the current government came dead last in four cases, second last in three more, and fell within the bottom half of governments (ranking no higher than seventh) in all of the rest. Hence the average performance of the current government, across the twelve indicators, is the weakest of any of the Prime Ministers considered.

It is hardly reasonable to ascribe full credit (or blame) for broad economic developments to whatever government

happens to be in power at the time. In reality, government's ability to control the direction of the economy is limited by numerous factors: including its limited fiscal and regulatory power, global events, technological change, and random economic shocks. Nevertheless, the empirical evidence is inconsistent with the present government's claim to superior economic management: abundant business-friendly rhetoric, and policies to enhance business profit and freedom, have not translated into stronger economic performance. Moreover, an analysis of forward-looking indicators (including trends in business investment, exports, household debt, and nominal prices) suggests that Australia's economy is likely to get worse before it gets better.

Aligning economic and fiscal policies even more closely with the preferences of the business community, while invoking buzz-words about economic "competence" and "leadership," is not likely to change Australia's present worrisome trajectory for the better. Improving economic performance will first require a more comprehensive understanding of the many forces and factors – not just business approval – required for economic success. Then we need a consistent and convincing plan to harness all of those forces in creating jobs, generating production and incomes, and lifting living standards.

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## Introduction

*"The Prime Minister has not been capable of providing the economic leadership our nation needs. He has not been capable of providing the economic confidence that business needs... The only way we can ensure that we remain a high wage, generous social welfare net, first world society is if we have outstanding economic leadership, if we have strong business confidence."*

Prime Minister Malcolm Turnbull, September 14, 2015, on occasion of his leadership challenge to previous Prime Minister Tony Abbott<sup>1</sup>

Public opinion polls indicate that voters regularly rank economic issues at the top of their list of concerns and priorities when electing their governments. In response, it is not surprising that political candidates emphasize their economic credentials in appealing for voter support. The current federal campaign is no exception: all parties make strong claims about their capacity to best "manage" Australia's economy.

Leaders of the current government have been especially forceful in claiming they are best qualified to oversee the national economy — and that their opponents would wreck prosperity, by declaring "war" on growth.<sup>2</sup> They equate economic leadership with having strong support and confidence from the business community, and accuse their opponents of being "anti-business." This identification of the "economy" with "business" was emphasized by Prime Minister Turnbull on the very day he challenged his predecessor for top office (as evidenced by the quote above, which treats the two terms virtually synonymously). And it is maintained in the government's 2016-17 budget and election platform, that promises to usher in a new era of "jobs and growth" on the strength of tax cuts for companies and high-income individuals. This identification of economic credibility with being "business-friendly" is reinforced by the general economic, political, and cultural influence of large corporations, and by the business-oriented nature of most economic reporting and commentary.

However, the economic claims of campaigning politicians tend to be very vague. And the equation of economic credibility

with support from the business community is unjustified and one-sided. What do we actually mean by "economic management"? What are the concrete determinants of actual prosperity? Do things like "leadership," "credentials," and "confidence" really matter? Or is economic well-being based on more mundane, measurable factors: like whether you have a job, how much you earn, and whether that's enough to pay your family's bills? Is enjoying the "confidence" of business leaders and business lobbyists proof of economic "leadership"? Or do other traits matter, too — perhaps including the willingness to successfully *challenge* businesses to behave differently, rather than catering to them? And what impact do government policies have on the other stakeholders that make up the economy, and whose actions are surely as important as businesses' in determining economic performance: such as workers, consumers and households, governments at all levels, small firms and proprietorships, NGOs and the voluntary sector, and more?

This briefing paper is an attempt to dig beneath vague claims about economic competence and friendliness to business, and consider more concrete indicators of economic progress. The paper identifies a dozen standard indicators of economic performance: covering work, production, incomes, and debt. Consistent historical data is gathered for the twelve indicators, going back to the 1950s. Then the actual historical record is compared between the various postwar Prime Ministers (any who served in office for at least a full year). Is there any correlation between the policy outlook of those respective governments, and in particular its "business credentials," and Australia's real economic progress?

This analysis should assist voters to consider more concretely what the economy actually means to them, and evaluate the economic promises of competing parties accordingly. It will cast doubt on the assumption — core to the whole logic of "trickle-down" economics — that economic competence is the same thing as being "business-friendly." And it will evaluate the current government's particular claim to superior economic competence, and the impact of the business-friendly measures it implemented in its first term in office, in light of the quantitative evolution of Australia's economy since 2013 compared to the record of previous governments.

The relationship between concrete economic performance and the “stewardship” of whatever government is in power is typically overstated – by both critics and defenders of the government of the day. Clearly, government’s ability to immediately and directly steer the economy is limited: by the overarching power of private decisions (firms, investors, and consumers), by the finite fiscal and regulatory capacities of government, and by the influence of global developments and random shocks. It would be folly to fully credit (or blame) each government for the economic conditions which prevailed on its watch. Both good times (like the expansionary years of the mining boom) and bad (following the global financial crisis) in Australia’s economic history clearly reflected the impact of bigger global forces, more than specific incremental policy actions. Hence the economic promises and predictions of *any* campaigning politician should be interpreted cautiously and skeptically.

## Methodology

This report reviews Australia’s economic performance under respective postwar Prime Ministers on the basis of a dozen standard statistical indicators. Together they provide a broad and multidimensional portrait of economic performance under each successive government.

Of course, any economic indicator reflects the influence of factors and developments that are clearly beyond the immediate control of government (such as global recessions, financial fluctuations, or energy shocks). And so it will always be debatable to what extent each government deserves the credit (or blame) for the economic performance recorded while it was in office. Nevertheless, that statistical record is the only objective legacy of how Australia’s economy performed under each respective government.

The twelve selected series include indicators that fall into four broad categories: work, output, incomes, and debt. They thus provide a comprehensive portrait of real economic performance — more concrete than vague claims about “competence,” “confidence,” and “leadership.”

The twelve indicators include:<sup>3</sup>

- Average unemployment rate (not working as share of official labour force).
- Average employment rate (full-time equivalent jobs as share of working age population).
- Average annual real GDP growth (per capita).
- Average annual growth, real private business capital investment.
- Average public sector capital investment (as a share of GDP).
- Average annual growth, real business intellectual property investment.
- Average annual change, exports (value, measured as a share of GDP).

- Average annual growth, real weekly wages.
- Average annual growth, real personal incomes (per capita).
- Average annual change, personal debt (as a share of GDP).
- Average current account balance (as a share of GDP).
- Average annual change, Commonwealth government debt (as a share of GDP).

These indicators are published regularly by official public sources, and reported widely by conventional economic and financial media. They are thus “standard” measures of economic performance. Of course, there are many other variables which could be considered in a wider survey of economic performance, and economists might disagree regarding which particular measures are most important or appropriate. But there is nothing unusual about the range of variables included here. They relate to the core components of economic well-being: work, production, incomes, and sustainable finances (that is, being able to cover costs without accumulating unsustainable debt).

It is worth noting some of the indicators which are not included in this analysis, and reasons why. The analysis does not directly consider the rate of inflation as an indicator of economic well-being. This is partly because it is not clear (particularly at the present juncture) whether lower or higher inflation would be better for the economy. Inflation in Australia is currently well below the target band identified by the Reserve Bank of Australia as the optimal level of inflation (in fact, in the March quarter Australia experienced broad *deflation*, measured both by consumer prices and by the GDP deflator). In this context it would be difficult to rank the record of successive governments. And to the extent that higher or lower inflation translates into real economic activity and incomes, it is already captured by our choice of variables: most of the measures of output, expenditure, and income above are phrased in real (that is, after-inflation) terms.

Another variable excluded from the analysis is inequality. Measures of income and wages are phrased in average or per capita terms, and this may provide a misleading indication of well-being. In conditions of rising inequality, average income measures can rise (pulled up by the rapid growth of incomes at the top) without translating into income gains for many or even most of the population. However, a lack of timely data on income inequality (the most recent ABS data available covers 2013-14, the financial year in which the current government was elected) makes it impossible to include this data in a complete evaluation of the economic record of all governments (including the present one). In this context, the data we report on wage and income levels likely overstate the true trajectory of real incomes for most Australians.

Each of the twelve indicators is briefly defined and reported below, including average scores for each Prime Minister. The analysis utilizes annual average data for each indicator, going back (in most cases) to 1950 (which is when Australia began to collect modern data on GDP and other core indicators). In a few cases, appropriate data is not available until some years later; these exceptions are noted. Calendar year averages



are used for all series except government deficits (which are reported on a financial year basis). Each Prime Minister's performance is measured over the entire period of their office: including the year in which they came into power, and the year in which they left power. By utilizing annual averages, and by considering both the year a government entered power and the year it left it, the analysis builds in a sensible "buffer period" surrounding each transition of government. It is not credible to assume that a new government can immediately begin "steering" the economy in a different direction the day after it takes office. It takes time for new policies to be formulated and implemented, and time for those policies to have effect. And at any rate, as we have noted, the impact of discretionary government policy on economic performance is limited. An approach based on annual averages thus provides a more reasonable portrait of the broad trend in economic performance under each government, not unduly influenced by month-to-month fluctuations, and recognizing the time lags inherent in policy implementation.

For some series (such as labour market indicators and the current account balance), it is most appropriate to calculate an annual average of the level of the variable in question for each Prime Minister's time in office. For others (including GDP, real incomes, and personal and government debt burdens) it is more appropriate to measure the average annual change in the variable over each Prime Minister's tenure (measured either in growth rates or average annual increments). The Appendix provides a detailed catalogue of the data sources and statistical construction of each variable.

To categorize Australia's postwar economic history, we define eleven different Prime Ministerships going back to 1950, on the basis of the following criteria:

- Only Prime Ministers who served for at least one full year are considered, on the sensible basis that any less was not enough time to meaningfully affect economic conditions. This excludes John McEwan<sup>4</sup> and the second period in office of Kevin Rudd.

- Prime Ministers who came to power between elections (as a result of a party leadership change) are granted their own "status" only if they subsequently won the next general election. If not, they are considered to have governed jointly (and temporarily) with the leader they replaced. Under this approach, therefore, two Prime Ministerships are defined as "joint": John Gorton and William McMahon, and Tony Abbott and Malcolm Turnbull.<sup>5</sup>

Table 1 summarizes the eleven Prime Ministerships defined on this basis:

**Table 1. Postwar Prime Ministers and their Tenures**

	Starting Year	Finishing Year
<i>Robert Menzies</i>	1950 <sup>1</sup>	1966
<i>Harold Holt</i>	1966	1967
<i>John Gorton / William McMahon</i>	1968	1972
<i>Gough Whitlam</i>	1972	1975
<i>Malcolm Fraser</i>	1975	1983
<i>Bob Hawke</i>	1983	1991
<i>Paul Keating</i>	1991	1996
<i>John Howard</i>	1996	2007
<i>Kevin Rudd</i>	2007	2010
<i>Julia Gillard</i>	2010	2013
<i>Tony Abbott / Malcolm Turnbull</i>	2013	2015 <sup>2</sup>

Source: Author's compilation from National Archives of Australia, "Australia's Prime Ministers," <http://primeministers.naa.gov.au/>.

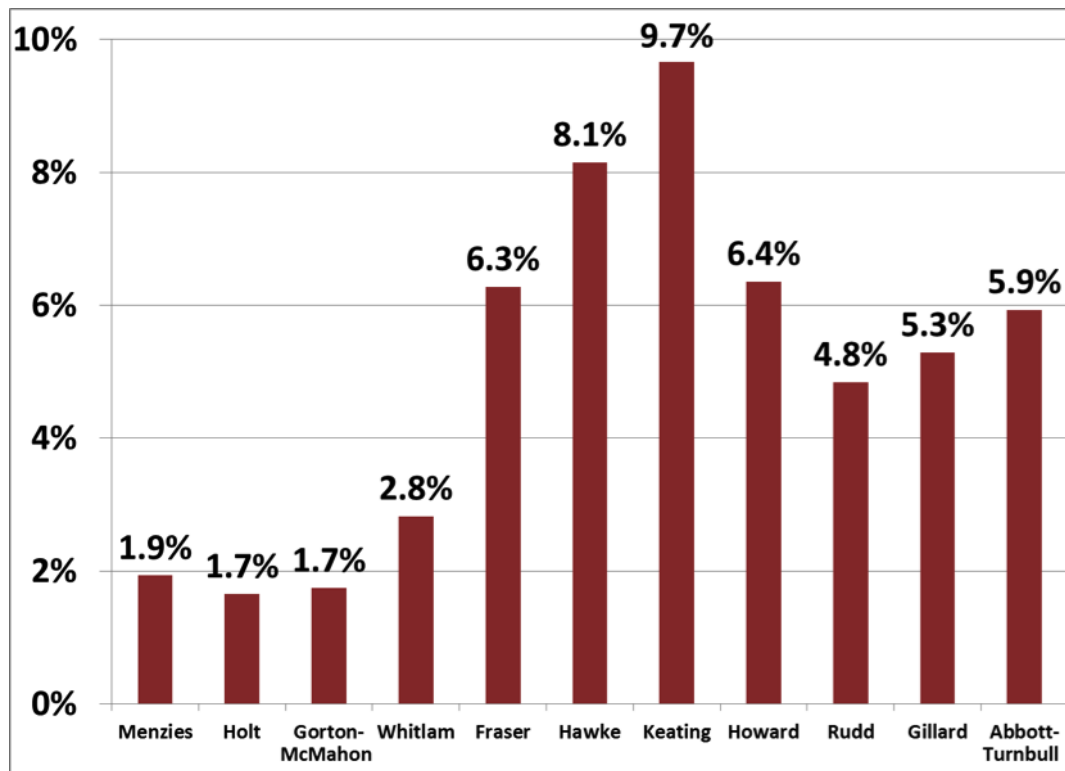
1. Menzies' postwar term began in Dec. 1949, but 1950 is the first calendar year for which full GDP and other economic data are available.

2. At time of writing, 2015 is the last full calendar year of data covering the current government.

## Variable #1: Average Unemployment Rate

The official unemployment rate measures the proportion of the labour force not employed at a given point in time. To be included within this measure, a jobless person must be actively seeking work (according to the definition used by the ABS in compiling the data). The unemployment rate therefore does not include individuals who have given up looking (and dropped out of the official labour force), or who are working part-time (even as little as an hour or two per week) despite wanting or needing full-time work. The official unemployment rate thus underestimates true joblessness by a considerable margin.<sup>6</sup> Unemployment was very low in the early postwar decades, but got much higher during the 1980s and 1990s, before moderating during the 2000s. Unemployment has increased again in Australia since the GFC – and under the current government it increased (on average) by about two-thirds of a percentage point.

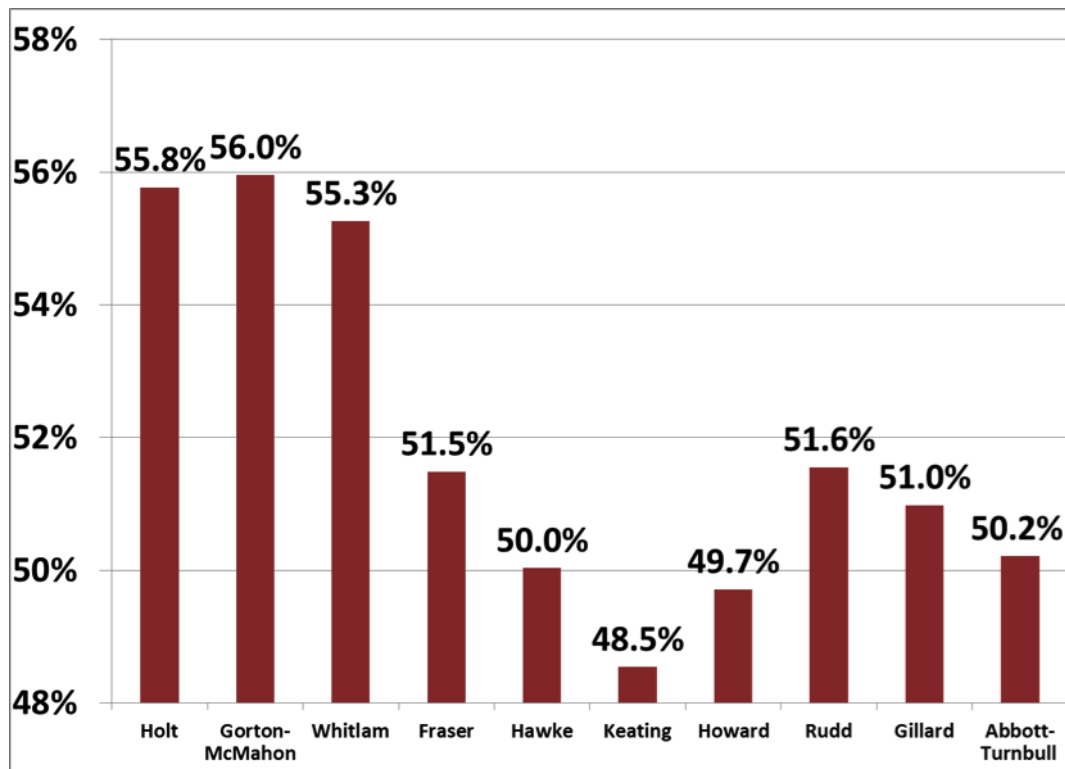
Figure 1: Average Unemployment Rate (%)



## Variable #2: Average Employment Rate

To be meaningful, the pace of job-creation must be measured relative to the number of people who are seeking work. The best measure of employment performance, therefore, is the employment rate: which measures the number of people working, as a percentage of the working age population. The employment rate thus takes account of population growth (which has accelerated notably in Australia over the last decade), and also is not influenced (as the unemployment rate is) by the somewhat arbitrary categorization of non-working people as either "in" or "out" of the official labour force. Employment data must also be adjusted for the steady expansion of part-time jobs in the labour market. Since part-time jobs generate less output and less income than full-time positions, we measure employment in full-time equivalents (FTEs), expressed as a proportion of the working age population. This adjusted employment rate declined through most of the postwar era (reflecting both higher unemployment and the expansion of part-time work), bounced back during the 2000s, and has declined again since then. It fell by over three-quarters of a percentage point under the present government, partly because part-time jobs have accounted for such a large share (60 percent) of new jobs created since it took office.

**Figure 2: Average Full-Time Equivalent Employment as Share Working Age Population (%)**

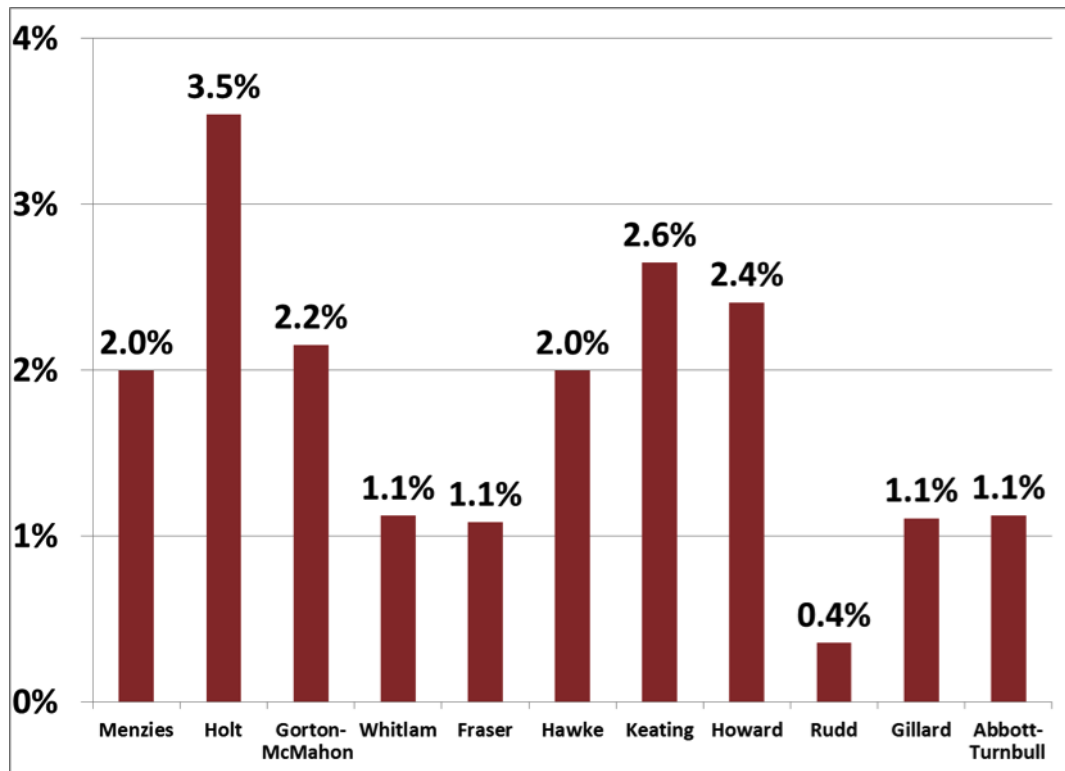




### Variable #3: Average Annual Growth, Real GDP per Capita

Gross Domestic Product (GDP) measures the total value of all the goods and services produced for money in the economy. Real GDP adjusts that measure for changes in average prices, and is thus a better measure of the actual quantity of output. Dividing real GDP by population then captures the effects of population growth. The resulting measure — real GDP per capita — is a measure of overall economic activity relative to population. It is also sometimes misinterpreted as a measure of “prosperity,” but that is not legitimate: changes in GDP are never translated fully into personal income or living standards, and GDP excludes many activities which are valuable but not exchanged for money (like unpaid household labour.) The expansion of real GDP per capita in Australia slowed dramatically after the GFC. It has averaged just over 1 percent per year under the present government, about the same as the preceding government.

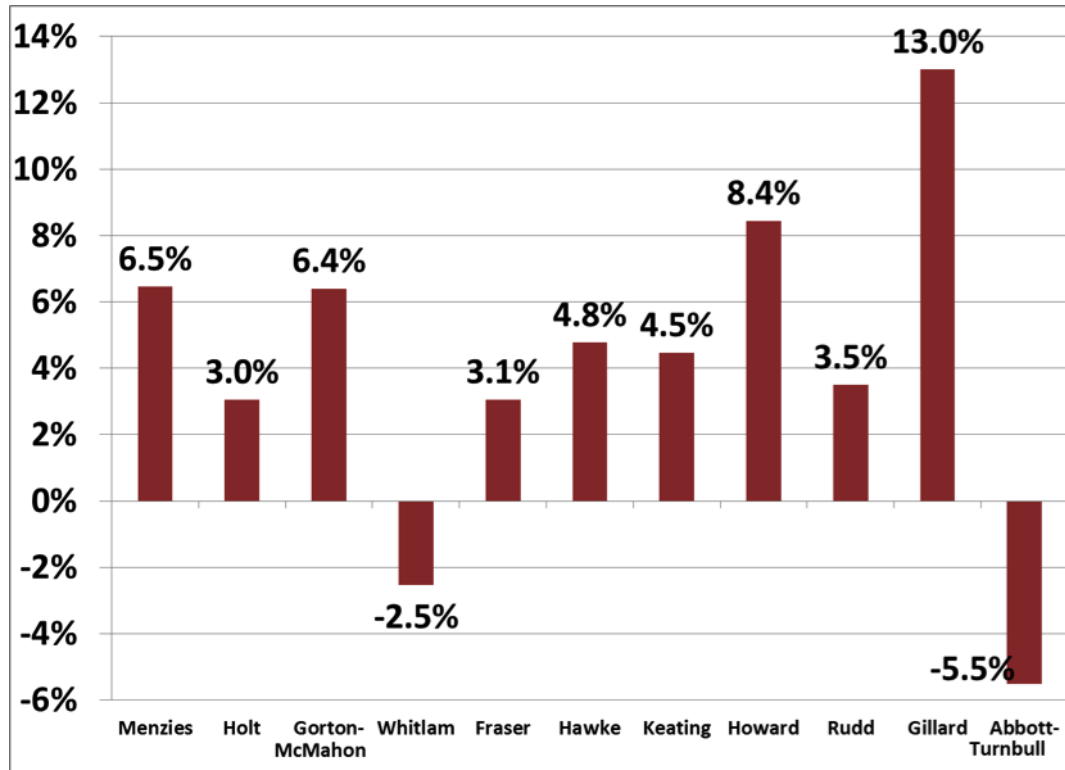
Figure 3: Average Annual Growth, Real GDP per Capita (%)



## Variable #4: Average Annual Growth, Real Business Capital Investment

Investment represents the allocation of a share of current output to develop new facilities, equipment, and technologies, thus permitting the expansion of output in future years. Investment is the most important determinant of economic growth; and business investment spending is the biggest component of total investment. Investment spending data must be adjusted to reflect changes in the average cost of investment projects; the resulting measure is real business investment. Business investment has been highly variable over the postwar era. It grew rapidly in the initial postwar decades, slowed during the 1970s and 1980s, and then expanded very strongly in the 1990s and 2000s (more recently driven by large resource projects). In recent years, however, business capital spending has been shrinking rapidly. Under the present government, business investment contracted by over 5 percent per year — worse than any other government in the postwar era.

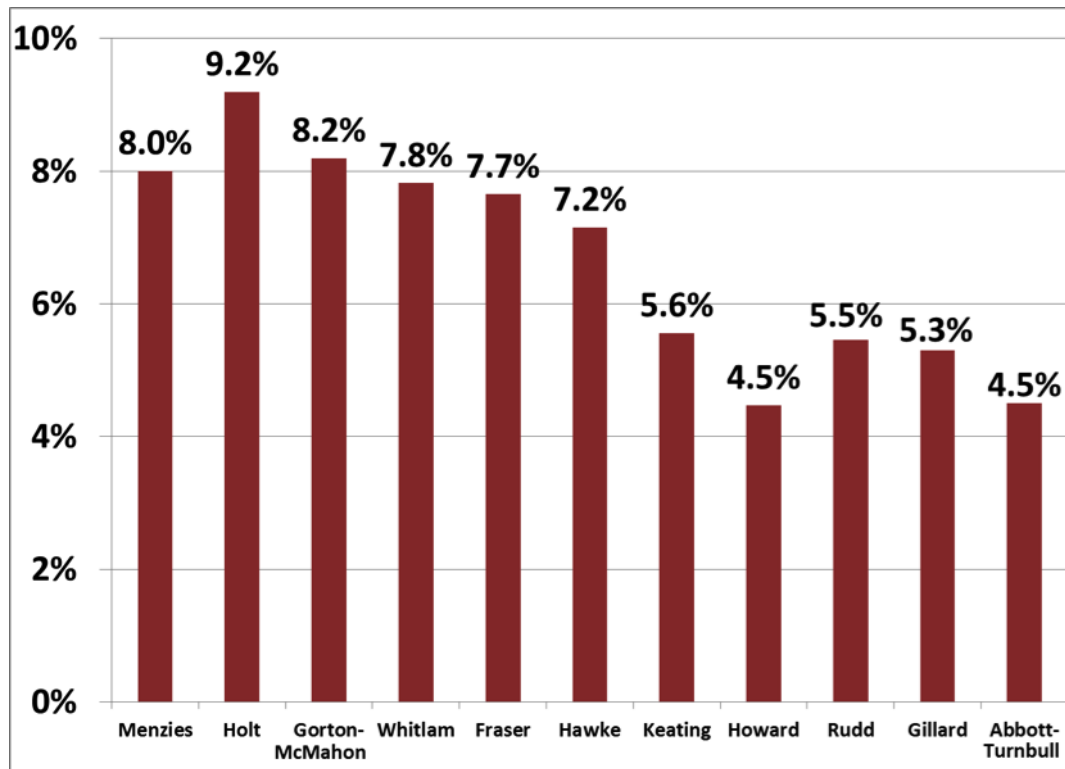
Figure 4: Average Annual Growth, Real Business Capital Investment (%)



## Variable #5: Average Public Sector Investment as Share of Total GDP

It is not just businesses that invest in new facilities, equipment, and technology. Public sector entities are also a major source of investment: including spending on new or upgraded facilities for public services (hospitals, schools), transportation systems, and other infrastructure (like utilities and water systems). Economists believe public investment is especially important to overall economic performance in the current era, necessary to offset the sustained weakness in private business investment. Strong public investment in Australia was a major component of the postwar economic boom of the 1960s and 1970s, but then slowed substantially in the 1990s. Infrastructure spending rebounded after the GFC as government funded numerous projects to offset the global economic downturn. Investment has moderated since then as stimulus measures abated; it has declined significantly under the current government (to among the lowest levels in postwar history, measured as a share of GDP) despite public statements about the importance of infrastructure.

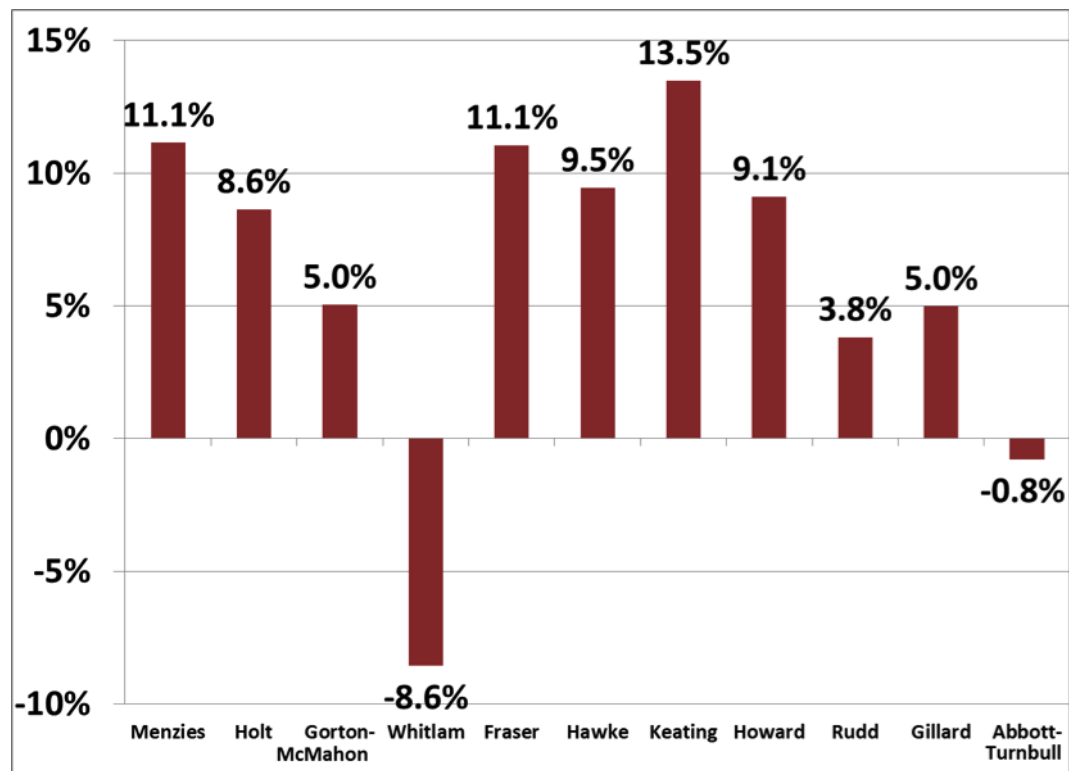
**Figure 5: Average Public Sector Investment as Share of GDP (%)**



## Variable #6: Average Annual Growth, Real Business Spending on Intellectual Property

It is widely understood that “innovation” is essential to economic progress. Innovation is a very broad concept, referring to new technologies, new products, and new ways of producing them. Business investments in research and development, new software, and other forms of “intellectual property” are a key indicator of the level of innovation in the economy. Countries which spend more on R&D tend to be more successful in expanding investment, productivity, and exports. Innovation investment must be expressed in real terms (adjusted for changes in the average cost of innovation inputs). Innovation spending grew rapidly through most of the postwar era, as Australian companies upgraded their technology and developed new products and processes. Under the present government, however, business investments in intellectual property have declined.

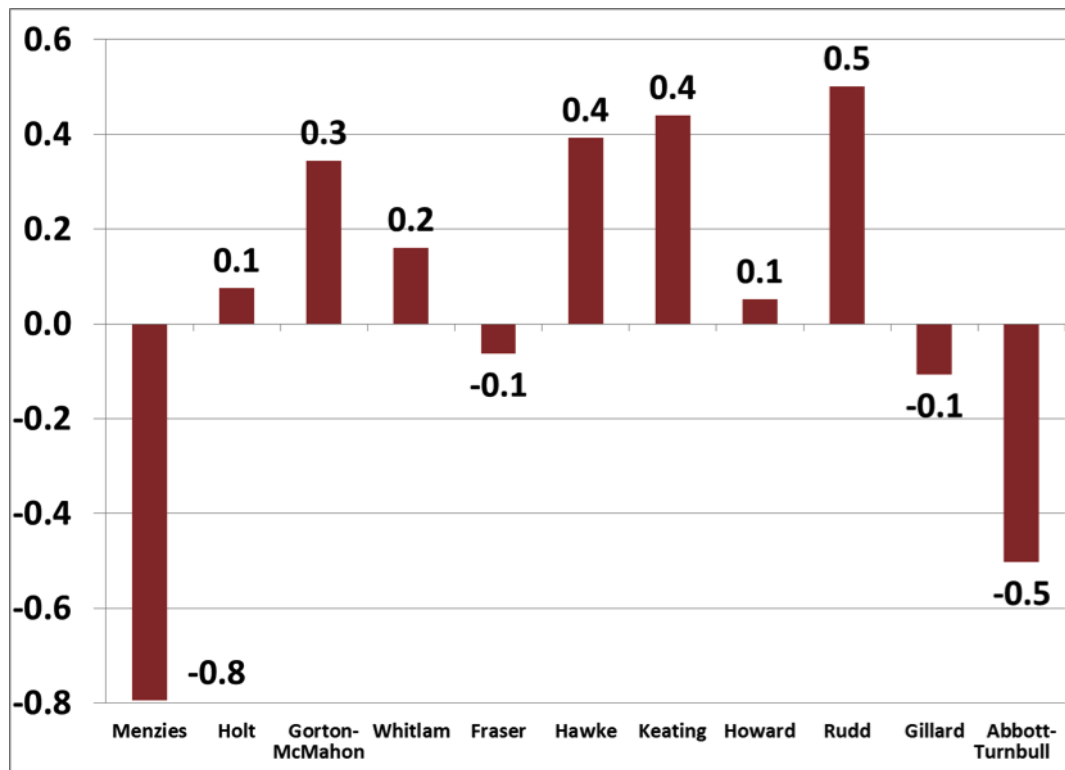
**Figure 6: Average Annual Growth, Real Business Investment in Intellectual Property (%)**



## Variable #7: Average Annual Change, Exports as Share of Total GDP

Exports are a key component of total economic output. The sale of Australian-made goods and services to foreign customers generates needed foreign exchange, allows Australia to import necessary products, and can spark economic growth (when export demand is strong). Export-oriented industries also demonstrate higher average productivity and income levels. It is not just the real quantity of exports, but also their *value*, that is crucial: Australia wants to expand both the real quantity of exports (reflected in real GDP), but also the average *prices* they fetch on world markets. Producing and selling more exports, but selling them for lower prices, does not result in greater prosperity for Australians. For exports, therefore, we measure export performance by the share of export revenues (including both goods and services) in total Australian GDP. The export share rose steadily through most of the postwar era as world trade expanded. More recently, however, it has been declining: partly because of deteriorating prices for Australia's resource exports, and partly because of the decline of other export sectors (such as manufacturing). Under the present government the export share of GDP fell by over one-half percentage point per year — the worst disengagement from export markets since the early 1960s.

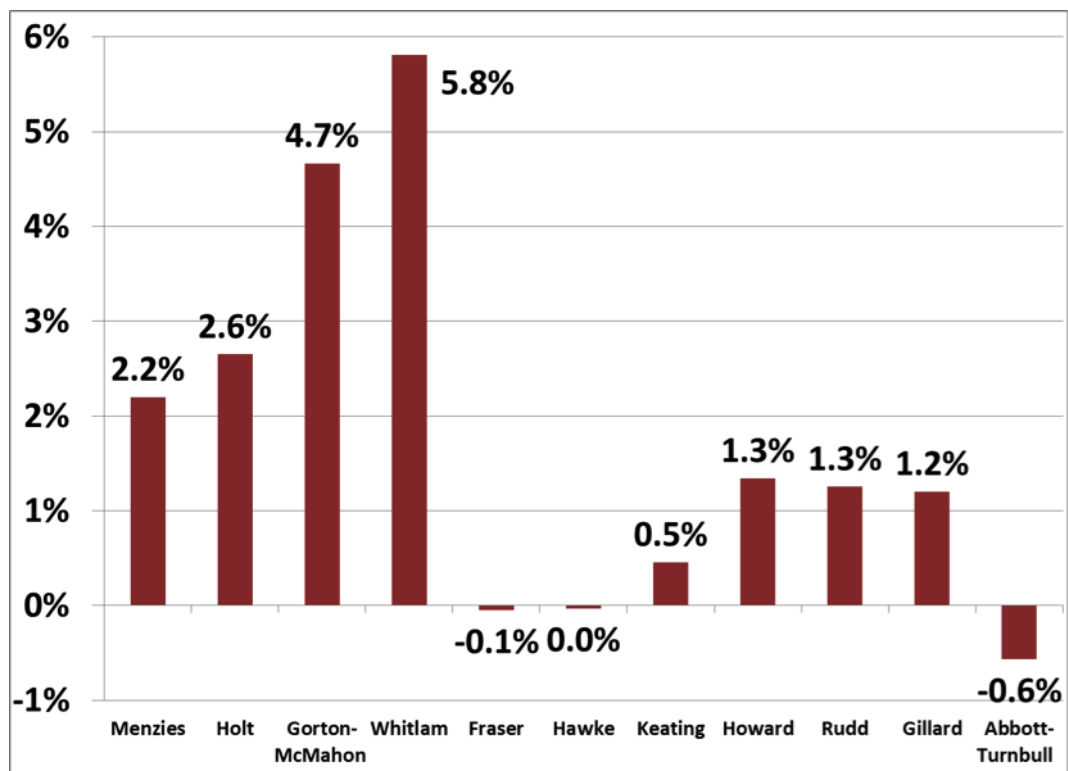
Figure 7: Average Annual Change, Exports as Share of GDP (% points)



## Variable #8: Average Annual Growth, Real Weekly Wages

Wages and salaries are the most important source of personal income for most Australian families. Having a steady job, working enough hours, and getting regular wage increases (to keep pace with consumer prices and reward higher productivity) are the key determinants of wage income. Wages must be adjusted for the effects of inflation, so as to capture the real purchasing power of workers' incomes: if wages rise only at the same pace as consumer prices, then workers are not any better off. Real wages grew rapidly in the initial postwar decades, then slowed during the 1980s and 1990s. After the turn of the century they accelerated modestly (to between 1.0 and 1.5 percent per year). Under the current government, however, real wage growth has switched into reverse: increases in nominal weekly wages haven't even kept up with inflation. It's the worst wage performance in Australia's postwar history.

Figure 8: Average Annual Growth, Real Weekly Wages (%)

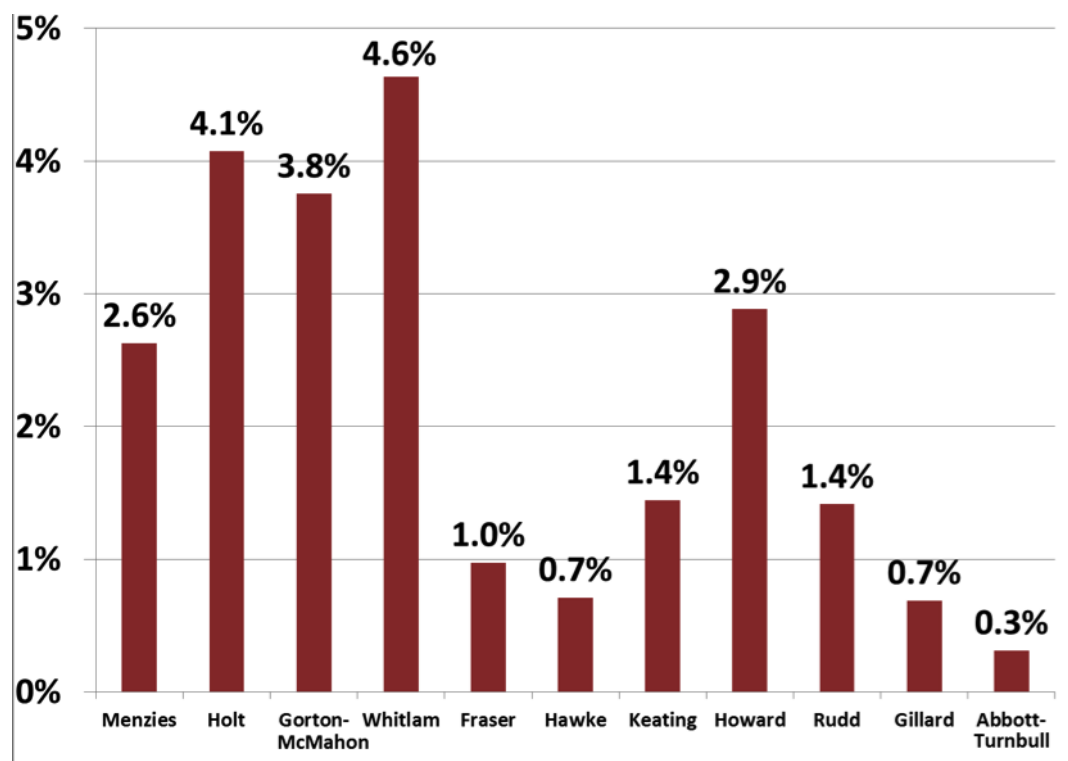




## Variable #9: Average Annual Growth, Real Personal Incomes per Capita

Wages and salaries are not the only form of personal income. Families also receive income from government benefit programs, personal investments, and small businesses. The overall trend in family incomes is best measured by adjusting total personal income flows for inflation, and then dividing by the size of the population; this provides a measure of real personal income per capita. Growth over time in this measure therefore indicates the extent to which economic growth actually translates into greater prosperity and security for Australian households. Not surprisingly, overall personal incomes are closely related to average wages (the most important source of personal income). But they also reflect changes in government programs, interest rates, and other factors. Personal incomes grew very strongly in the 1960s and 1970s (partly because of the expansion of social welfare programs), and more modestly in the 2000s. Under the present government, however, real per capita personal incomes have increased at the slowest pace in postwar history.

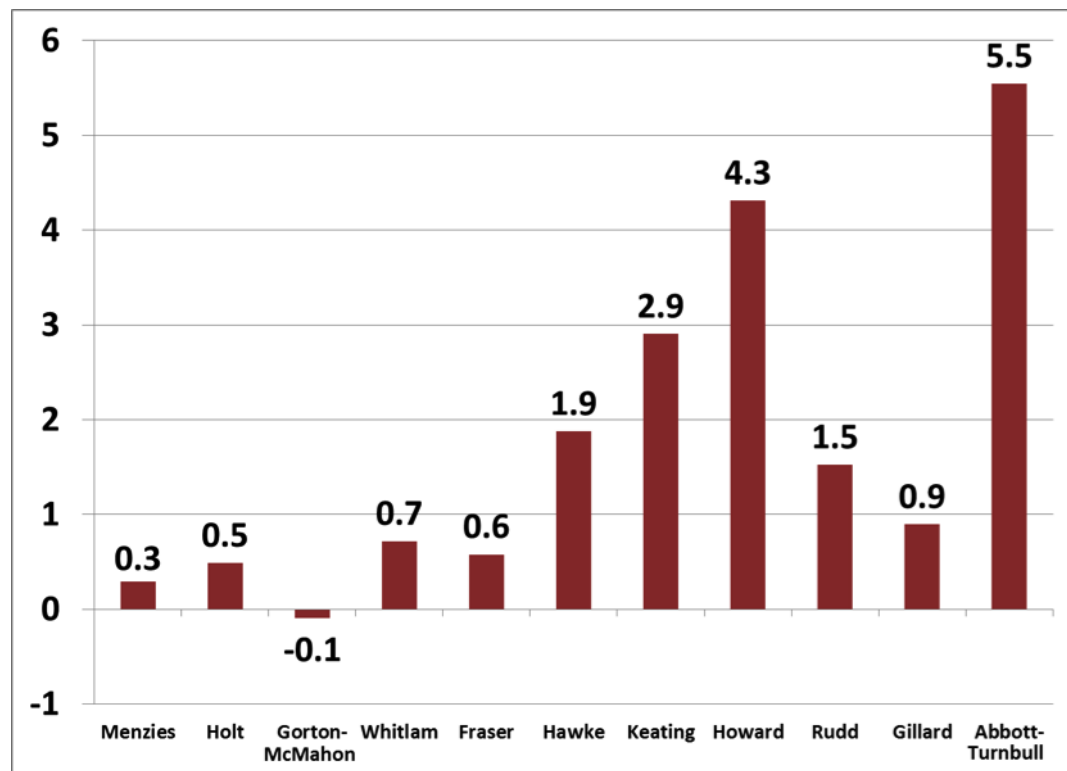
**Figure 9: Average Annual Growth, Real Personal Income per Capita (%)**



## Variable #10: Average Annual Change in Household Debt as Share of GDP

Family incomes have been stagnant, yet consumer prices are still rising. The increase in housing costs has been especially dramatic — particularly in major cities. Household budgets are thus squeezed, and the end result has been a steady increase in household debts. Total personal debt in Australia today now exceeds 130 percent of national GDP; that is one of the highest personal debt burdens in the world. Continued house price inflation has been a key driver of rising debt, requiring ever-larger mortgage borrowing by home-owners. And financial analysts have warned of the risks of a personal debt crisis in Australia, especially in the event of a downturn in housing prices (since mortgages are the largest component of the debt). Under the current government, the household debt burden grew by over 5 percentage points of GDP per year. That's the fastest escalation of personal debt of any postwar government. It is ironic that so much public attention is focused on government debt as a barometer of national economic well-being, when Australians' personal debts are both much larger, and more unstable.

**Figure 10: Average Annual Change Personal Debt as Share of GDP (% points)**

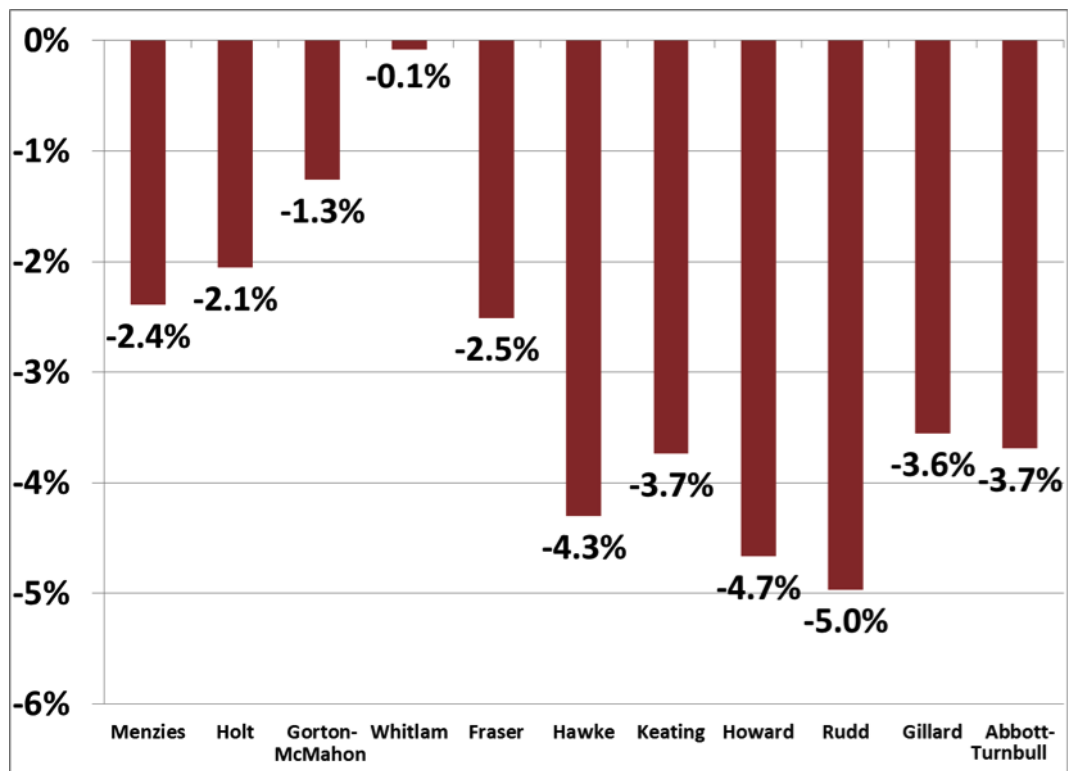


## Variable #11: Average Current Account Balance as Share of GDP

Another worrisome issue for Australia's financial stability is the large debt owed to foreign lenders and investors. Whenever Australia pays more to foreigners (for imports of goods and services, the cost of travel abroad, and the profits earned here on foreign investments) than it earns from them (through spending on exports of Australian products, or spending by tourists coming here), then the country goes more deeply into debt. The increase in foreign debt in any particular year is measured by the current account balance for that year.<sup>11</sup> The current account balance measures the net inflow or outflow of money from all current international transactions (including trade, tourism, and investment income). When it is negative (as is typically the case for Australia), the country as a whole has been paying more to foreigners than receiving from them (and hence going deeper into debt).

We measure the current account balance as a share of GDP. The current account deficit widened under the current government, reaching over \$75 billion in 2015.

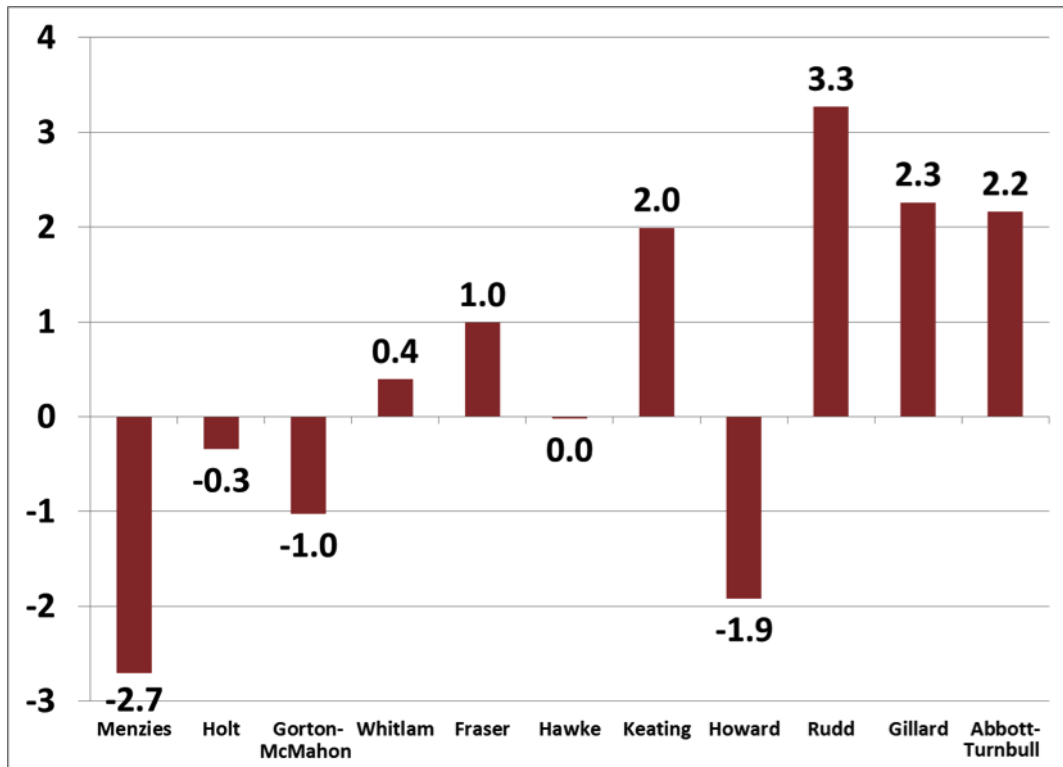
Figure 11: Average Annual Current Account Balance (% GDP)



## Variable #12: Average Annual Change in Commonwealth Government Debt as Share of GDP

The government's budget balance attracts much public and media attention. However, government debt is smaller than the debt of other sectors (including households, private businesses, and foreign debt). And governments are considered the most stable of all borrowers (and hence pay the lowest interest rates on their debts). Nevertheless, the growth of government debt is commonly interpreted as a key indicator of prudent economic management. As with other debts, we measure government debt as a share of GDP — since a larger GDP improves the capacity to service a debt of any given size. The public debt burden thus depends on the rate at which debt is accumulating (in annual deficits), but also on growth in the nominal value of GDP. Most postwar Commonwealth governments ran regular deficits, however that did not necessarily translate into a higher debt burden (as a share of GDP) so long as the economy continued to expand. Since the GFC, however, the debt burden has increased more rapidly — partly because of slow growth in nominal GDP. In fact, nominal GDP has recently expanded more slowly than real GDP (because of falling average prices for Australian output). Under the present government, the debt burden has grown by more than two percentage points of GDP per year — the third-fastest of all postwar governments, and only fractionally slower than under the previous government.

**Figure 12: Average Annual Change in Commonwealth Debt as Share of GDP (% points)**



## Evaluation and Analysis

Real prosperity depends on Australians having the opportunity to work, produce, earn income, and pay their bills (without incurring precarious debts). During an election, it is important for voters to go beyond the slogans and claims of politicians regarding their economic “credibility” and business-friendly “credentials.” We must also evaluate the empirical reality that Australians experience, and consider what each party’s plan implies for those quantitative indicators.

This report has reviewed a dozen standard economic indicators, on the basis of data obtained from official government sources, and compared Australia’s economic performance under the various postwar Prime Ministers. A summary of the average scores attained by each government for each of the twelve indicators, and the current government’s ranking among other postwar governments, is provided in Table 2.

Some interesting conclusions arise from the analysis:

- Employment, production, incomes, and financial balances were all relatively strong in the initial postwar decades. The economy slowed down in the 1980s and 1990s, before regaining relatively strong momentum in the 2000s.
- By most measures, Australia’s economy weakened significantly after the GFC and the resulting worldwide recession, and has yet to regain its previous trajectory. This is consistent with the experience of many other countries, which also continue to experience weak growth, weak business investment, and financial instability.
- However, according to ten of the twelve indicators, economic performance in Australia deteriorated further under the current government (compared to its predecessor). In one case performance modestly improved (the growth of public debt has fractionally slowed); in one case (real GDP growth per capita) performance has remained similar.
- Across all twelve of the indicators, Australia’s economic performance under the current government has ranked well within the bottom half of the eleven postwar Prime Ministerships considered in the analysis. In four cases, the current government ranked last of the eleven governments, and in three more cases it ranked or tied for second-last. Considering all the indicators, the tenure of this government qualifies as the weakest of any government in Australia’s entire postwar economic history.<sup>9</sup>
- There is no obvious correlation between the political colour and business orientation of the various governments,

and the recorded economic performance. Early postwar Coalition governments recorded consistently high rankings across most indicators, while the Coalition governments of Malcolm Fraser and Tony Abbott/Malcolm Turnbull ranked consistently badly. Other governments scored well on some indicators, and poorly on others. Further complicating the interpretation of these results is the fact that the political and policy orientation of the ruling parties has evolved over time: it could well be argued that recent Labor governments, in many respects, were more market-driven and even “business-friendly” than early postwar Coalition governments – reflecting the general rise of pro-business economic policy around the world since the 1980s. In short, it is hard to even judge which governments are “business-friendly,” and there is certainly no historical evidence that being “business-friendly” causes stronger economic performance.

- It is clear from the comparison of the successive governments that broader, often global forces have more effect on Australian economic performance than discretionary policy. Economic times were good in Australia during the long postwar boom, fueled here (like elsewhere) by strong investment, a growing public sector, and rising real incomes. They were weaker during the troubled era of global stagflation, rebounded during the global commodities boom, and then deteriorated again in the wake of the GFC. Ascribing these observed swings to the relative “economic competence” of successive governments is far-fetched.
- Our analysis considered three different dimensions of financial stability (personal, foreign, and public), and this provided important insight and balance. Government debt attracts a great deal of attention in politics, but those trends must be considered in the context of the broader performance of Australia’s economy. Compared to consumers, businesses, and Australia’s foreign debt, government actually has the smallest financial liabilities. Efforts by the current government to reduce the deficit have not stopped an acceleration of public debt as a share of GDP – in part because of the unprecedented deceleration of nominal GDP growth. At the same time, other forms of debt in Australia have escalated rapidly (especially personal debt). Indeed, it could reasonably be argued that the two trends are connected: if government deficits are reduced through cutbacks in government services and income programs, then smaller government deficits would logically be reflected in higher personal debts.

**Table 2. Summary of Performance Indicators.  
Twelve Variables, Eleven Prime Ministers, 1950-2016**

Prime Minister	Unemployment Rate	Employment Rate (FTE) <sup>1</sup>	GDP Growth per Capita	Business Investment Growth	Public Investment as Share GDP	Innovation Investment Growth <sup>2</sup>	Growth Exports as Share GDP	Real Wage Growth	Real Personal Income Growth <sup>2</sup>	Growth Household Debt as Share GDP <sup>3</sup>	Current Account Balance	Growth Government Debt as Share GDP
	(%)	(%)	(% per yr)	(% per yr)	(%)	(% per yr)	(% pts/yr)	(% per yr)	(% per yr)	(% pts/yr)	(% of GDP)	(% pts/yr)
Menzies	1.9%	n/a	2.0%	6.5%	8.0%	11.1%	-0.79	2.2%	2.6%	0.29	-2.4%	-2.70
Holt	1.7%	55.8%	3.5%	3.0%	9.2%	8.6%	0.07	2.6%	4.1%	0.49	-2.1%	-0.34
Gorton / McMahon	1.7%	56.0%	2.2%	6.4%	8.2%	5.0%	0.34	4.7%	3.8%	-0.10	-1.3%	-1.03
Whitlam	2.8%	55.3%	1.1%	-2.5%	7.8%	-8.6%	0.16	5.8%	4.6%	0.72	-0.1%	0.39
Fraser	6.3%	51.5%	1.1%	3.1%	7.7%	11.1%	-0.06	-0.1%	1.0%	0.58	-2.5%	0.99
Hawke	8.1%	50.0%	2.0%	4.8%	7.2%	9.5%	0.39	0.0%	0.7%	1.87	-4.3%	-0.02
Keating	9.7%	48.5%	2.6%	4.5%	5.6%	13.5%	0.44	0.5%	1.4%	2.90	-3.7%	1.99
Howard	6.4%	49.7%	2.4%	8.4%	4.5%	9.1%	0.05	1.3%	2.9%	4.31	-4.7%	-1.92
Rudd	4.8%	51.6%	0.4%	3.5%	5.5%	3.8%	0.50	1.3%	1.4%	1.52	-5.0%	3.27
Gillard	5.3%	51.0%	1.1%	13.0%	5.3%	5.0%	-0.11	1.2%	0.7%	0.89	-3.6%	2.26
Abbott / Turnbull	5.9%	50.2%	1.1%	-5.5%	4.5%	-0.8%	-0.50	-0.6%	0.3%	5.54	-3.7%	2.16
(Rank)	7	7 <sup>4</sup>	7 (tied)	11	10 (tied)	10	10	11	11	11	7	9
(Direction of Change)	Worse	Worse	Same	Worse	Worse	Worse	Worse	Worse	Worse	Worse	Worse	Better

Source: Author's calculations from ABS, RBA, and Commonwealth Budget as described in text. See Table 1 for dating of Prime Ministerial tenures.

1. Data begins in 1966. 2. Data begins in 1960. 3. Data begins in 1953. 4. Rank out of 10 (data unavailable for Menzies).



## Conclusions

During election campaigns, competing politicians tend to exaggerate the potential impact their policies (and their opponents') are likely to have on the national economy. In reality, Australia's economy is dependent more on the decisions of private actors (including businesses, consumers, and foreign customers) than on government. It would be folly to ascribe full credit for good economic times to the government that happened to be in power during those years – and by the same token, to blame a government for negative economic events which were clearly beyond its control. (The economic fallout in Australia from the GFC is an obvious example of that latter form of misattribution.)

Politicians on all sides, therefore, should approach economic performance indicators with caution and humility. Government policies clearly have the capacity to influence the broader economic trajectory, for better or worse. But those effects take time, and are muted or even overwhelmed by other developments.

In the context of the current election, the present government's claims to superior "economic management," rooted in the alignment of its policies with the preferences of the business community and high-income households, must be considered with particular skepticism. By most of the twelve indicators presented here, national economic performance has clearly deteriorated during its tenure. Again, this deterioration cannot be attributed solely to the actions of the government itself. But it is still far-fetched for the present government to claim "credit" for an economic record that, by concrete statistical measures, is quite poor.

Looking past the election, there are numerous indicators that Australia's economic performance is likely to get worse, not better, in the absence of strong countervailing measures. Significant risk factors in the economic outlook include:

- A dramatic and continuing contraction in business capital spending, usually the most important driver of economic growth. Recent ABS data indicate that private business investment will decline another 15 percent in 2016.<sup>10</sup>
- A continuing decline in the value of exports relative to GDP. GDP statistics for the March 2016 quarter reported a decline in the aggregate value of exports (down at an annualized rate of 3 percent), despite an increase in the physical quantity of exports. Exports consequently fell to their lowest share of GDP (18.77 percent) since the GFC.<sup>11</sup>
- Swelling current account deficits reached over 5 percent of GDP (one of the highest levels in postwar history) in the second half of 2015.<sup>12</sup> These deficits reflect the falling value of Australian exports, and a widening trade deficit — and translate into an inexorable increase in foreign debt. Financial analysts have expressed concern about the stability of Australia's foreign debt (especially in the event of a housing market downturn, sharp drop in the value of the Australian dollar, or other shocks).<sup>13</sup>

- Steady increases in consumer debt (now equal to 130 percent of GDP) are being fueled by soaring real estate prices. At the same time, concerns are growing over the quality and stability of Australian mortgage debt, including the growing preponderance of interest-only mortgages.
- Unprecedented stagnation in wages and prices across the broader economy. In fact, both consumer prices and overall output prices *declined* in the March quarter of 2016. Nominal wage increases are near zero. If deflation becomes entrenched, the impacts on business and consumer expectations, spending, and debt stability could be severe.

Taken together, these negative indicators suggest that Australia's economy is headed into very challenging times. Invoking vague concepts like "confidence" and "leadership" is hardly a convincing response to those challenges. What is needed are concrete, pragmatic strategies to boost spending, directly support job-creation (instead of hoping that jobs are magically created by "supply and demand" forces), and stabilize all debt burdens, not just government's (including Australia's enormous consumer and foreign debts). In this context, politicians need to be challenged by their constituents to describe precisely and concretely how their platforms will translate into work, production, income, and financial stability. Endorsement of specific proposed tax cuts from business leaders, is hardly "proof" that those tax cuts will stimulate real progress on those real indicators.

## Appendix: Statistical Sources and Methodology

This appendix describes the general methodology used in the historical analysis presented above, lists the data sources, and explains the specific construction of each variable considered in the report.

Unless noted, the data series for each of the twelve variables considered in the report begins in 1950 (the first calendar year for which modern national income statistics began to be collected). With the exception of data on government debt as a share of GDP (which is reported on a financial year basis), all variables are reported as annual calendar year averages, generally constructed from seasonally averaged monthly or quarterly series.<sup>14</sup> As explained in the text, average performance indicators for each Prime Minister are calculated including both the beginning calendar year and ending calendar year of their tenures (thus creating a "buffer" zone to reflect the time lags associated with a government taking office, formulating and implementing policy, and affecting economic performance). The list of defined governments and their starting and ending dates is provided in Table 1.

Data for the twelve series were obtained from three official public sources:

- The on-line publications and databases maintained by the Australian Bureau of Statistics (ABS), available at <http://abs.gov.au/browse?opendocument&ref=topBar>. The descriptions below report the catalogue number and series number corresponding to each variable.
- A compendium of historic economic statistics from the early postwar decades that was compiled and published by the Reserve Bank of Australia (RBA), available at <http://www.rba.gov.au/statistics/frequency/occ-paper-8.html>.<sup>15</sup> The descriptions below report the Table number and Column number corresponding to each variable. Note that some of the series from this source, for years prior to 1960, refer to financial years not calendar years; the data were converted to calendar years for comparability with other series by averaging the values from the two corresponding calendar years.
- Historical fiscal statistics published in the annual Commonwealth budget published by the Treasurer and the Finance Minister (Budget Paper #1, Statement #10), available at <http://www.budget.gov.au/2016-17/content/bp1/download/bp1.pdf>.

For most of the variables, no single harmonized data series was available covering the entire historical period of the analysis. Combining multiple series was therefore necessary to generate a complete statistical record. In most cases, we avoided joining series within the term of a particular Prime Minister (since any resulting breaks in the data series could affect the apparent change over time reported for that Prime Minister). Instead, an overlapping approach was followed, in which the cumulative growth experienced for any Prime Minister was measured using the most recent series which completely covered that Prime Minister's tenure in office. Exceptions to this approach are noted below.

### **#1: Unemployment Rate**

1979-2015: ABS 6202.2, series A84423050A, annual average.

1950-1978: RBA Table 4.3, Column AD.

The average unemployment rate for the Fraser government (1975 through 1983) includes data from both of the data series noted above; since we are measuring average levels of the unemployment rate (not change over time), this splicing should not unduly affect the result.

### **#2: Full-Time Equivalent Employment Rate**

1979-2015: ABS 6202.0, series A84426277A (monthly hours in all jobs), divided by average hours worked by full-time employees (equal to the ratio of A84426278A, hours worked by full-time employees, over A84423041X, number of full-time employees), expressed as a proportion of the working age population (A84423091W).

1966-1978: RBA Table 4.12, Column AG (total hours worked), divided by average full-time hours (Column U), expressed as

a proportion of the working age population (Table 4.3, Column C).

No data on total hours worked is reported for years prior to 1966, and hence no data series is available for the Menzies tenure — although given low unemployment and the relatively rare incidence of part-time work in that era, the FTE employment rate under that government was likely the highest of any of the postwar Prime Ministers.

Again, the average employment rate reported for the Fraser government reflects a combination of data from the two sources above.

### **#3: Average Annual Growth of Real GDP Capita**

1960-2015: Average annual compound growth in ABS 5206.0, series A2304402X, divided by population (see below).

1950-1967: RBA Table 5.2a, Column BB.

### **#4: Average Annual Growth in Real Business Investment**

This series considers private business capital spending on non-residential structures and machinery and equipment. (Private business investments in intellectual property assets are reported separately below.)

1960-2015: ABS 5206.0, sum of series A2304089R (non-residential construction) and A2304083A (machinery and equipment).

1950-1958: RBA Table 5.2a, Column M.

1959-1967: RBA Table 5.2a, sum of Columns L (structures) and O (machinery).

### **#5: Average Public Sector Investment as Share of GDP**

Includes capital spending by all public sector entities including government (all levels) and public corporations. The best indication of the relative importance which successive governments attach to public investment is to measure spending as a share of GDP.

1960-2015: ABS 5206.0, series A2304065W, as a share of A2304418T (nominal GDP).

1950-1967: RBA Table 5.1a, Column AD, as a share of Column AX (nominal GDP).

### **#6: Average Annual Growth in Real Business Investment in Intellectual Property**

1960-2015: ABS 5206.0, series A2716198R.

No data on this variable is available prior to 1960.

### **#7: Average Annual Change in Exports as a Share of GDP**

This variable includes exports of goods and services, measured in nominal terms (in order to capture changes in the unit value of exports) as a proportion of nominal GDP.

1960-2015: ABS 5206.0, series A2303824F (exports) as a share of A2304418T (nominal GDP).

1950-1966: RBA Table 5.1a, Column AR (exports) as a share of Column AX (nominal GDP).

### **#8: Average Annual Growth in Real Weekly Wages**

We consider the level of average weekly wages for all employees, in order to capture the impact of growing part-time work on weekly incomes. The following nominal weekly wage series are all divided by the consumer price index (see below).

2012-2015: ABS 6302.0 (new series), series A84998735A.

1994-2013: ABS 6302.0 (old series), series A2772132V.

1972-1994: RBA Table 4.18, Column U.

1967-1972: RBA Table 4.17, Column AD.

1950-1967: RBA Table 4.17, Column X.

Prior to 1967 weekly wages are reported for men only, and hence the implicit assumption is made that nominal wage growth (but not wage levels) was similar for women. Wage growth data for the Keating tenure (1991 through 1996) required the mid-tenure joining of two series (from RBA Table 4.18 and ABS 6302.0) since no single published series covers the whole period of that government.

### **#9: Average Annual Growth of Real Personal Incomes per Capita**

1960-2015: ABS 5206.0, series A2302925X (total nominal personal income) divided by population and the consumer price index (see below).

No data is available on this variable prior to 1960.

### **#10: Average Annual Growth in Household Debt as Share of GDP**

1988-2015: ABS 5232.0, series A3431543A (total household financial liabilities) divided by A2304418T (nominal GDP).

1953-1991: RBA Table 5.26, Column F (household liabilities to banks as share of GDP).

No data on household financial obligations is available prior to 1953, and no data on non-bank financial obligations is available prior to 1988 (hence we implicitly assume that the pattern of total indebtedness as a share of GDP follows the pattern of indebtedness to banks).

### **#11: Average Current Account Balance as Percent of GDP**

1960-2015: ABS 5302.0, series A 3533808F (current account) as share of A2302467A (non-seasonally adjusted nominal GDP).

1950-1966: RBA Table 1.1, Column T (current account) as share of Table 5.1A Column AX (nominal GDP).

### **#12: Average Annual Growth in Commonwealth Debt as Share of GDP**

1970/71 – 2015/16: Budget Paper #1, Statement 10, Table 4 (net Commonwealth debt) as share of financial year average nominal GDP (ABS 5206.0, series A2304418T).

1950-1966: RBA Table 2.19, Column S (total securities issued for Commonwealth government debts) as share of RBA Table 5.1A, Column AX (nominal GDP). The earlier data is presented on a calendar year basis.

Net debt is the better measure of the Commonwealth government's financial position since it considers the value of financial assets and investments, but no data on net debt is available prior to 1970-71. We thus implicitly assume that the trend in net debt as a share of GDP prior to 1970 was similar to the trend in gross debt. Note that the evolution of the Commonwealth debt burden in the 1950s and 1960s was dominated by the rapid reduction in accumulated wartime debts as a share of the (rapidly growing) economy, so this assumption is reasonable; also note that the difference between gross and net debt (equivalent to the Commonwealth government's financial assets) was stable as a share of GDP during the 1970s (at around 8 percent), adding confidence that the gross debt trend prior to 1970 is an accurate indicator of the net debt trend.

### **Population:**

Population enters the construction of variables 3 and 9 (per capita GDP and personal income).

1982-2015: ABS 3101.0, series A2133251W (annual averages).

1950-1982: ABS 3105.0.65.001, Table 1.2, backward projected from the more recent series using annual growth rates.

### **Consumer Price Index:**

The CPI enters the construction of variables 8 and 9 (real wages and personal incomes).

1950-2015: ABS 6401.0, series A2325846C, annual average.

## Notes

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<sup>1</sup> Remarks to reporters in Canberra, September 14 2015, "Tony Abbott leadership challenge: transcript of Malcolm Turnbull's blistering speech," *Sydney Morning Herald*, Sept. 14 2015, <http://www.smh.com.au/federal-politics/political-news/tony-abbott-leadership-challenge-transcript-of-malcolm-turnbulls-blistering-speech-20150914-gjmace.html>.

<sup>2</sup> Matthew Knott, "'Tax as their bullets': Scott Morrison's extraordinary 'war' attack on Labor," *Sydney Morning Herald*, June 2 2016, <http://www.smh.com.au/federal-politics/federal-election-2016/tax-as-their-bullets-scott-morrison-extraordinary-war-attack-on-labor-20160602-gp9sh7.html>.

<sup>3</sup> As shown by Alan Austin, most of these indicators are included on a list of 20 variables which Coalition leaders themselves used to criticize the previous Labor government's economic record prior to the last election, and hence presumably agreed were relevant and important; see Alan Austin, "What are Abbott and Hockey really trying to achieve? 20 tries for 20 failures," *Independent Australia*, June 7 2015, <https://independentaustralia.net/politics/politics-display/what-are-abbott-and-hockey-really-trying-to-achieve-20-tries-for-20-failures,7798>.

<sup>4</sup> John McEwan served for only a few weeks in December 1967 and January 1968. His short term overlapped with a new year, and hence as a result the calendar year periods covered by the exit of the previous government (of Harold Holt) and the entry of the next one (John Gorton) did *not* overlap. For every other change of Prime Minister covered in Table 1, the outgoing and incoming governments share the changeover calendar year as part of their respective tenures.

<sup>5</sup> William McMahon replaced John Gorton as Liberal leader and Prime Minister in March 1971, but lost the next federal election (in December 1972). Of course, if Mr. Turnbull wins the current election, then by this criteria he would receive full status as his "own" Prime Minister, beginning with his ascension to that office in 2015.

<sup>6</sup> Including underemployed workers and discouraged job-seekers, the true unemployment rate is more like 15% at present, rather than the official rate of 5.7 percent.

<sup>7</sup> Consistent data directly measuring the size of Australia's external debt from all sectors is not available, and hence we have utilized the current account balance as a measure of the annual growth in that debt.

<sup>8</sup> The exceptions were the early postwar era, and the peak boom years of the 2000s, when the government generated small annual surpluses.

<sup>9</sup> A simple numerical average of the present government's ranking across the 12 indicators is 9.25, indicating that "on average" the economy performed between ninth- and tenth-worst of the 11 postwar governments in each area. That is the worst average ranking of any of the governments.

<sup>10</sup> ABS Catalogue 5625.0.

<sup>11</sup> Author's calculations from ABS Catalogue 5206.0, Table 3.

<sup>12</sup> Author's calculations from ABS Catalogues 5302.0 and 5206.0.

<sup>13</sup> See, for example, David Uren, "Budget 2016: \$1 trillion foreign debt a rating risk," *The Australian* (May 12, 2016).

<sup>14</sup> In a small number of cases, such as population, no seasonally averaged variable is reported, and so the original series is utilized.

<sup>15</sup> A formal reference for this RBA report is Australian Economic Statistics 1949-1950 to 1996-1997, Occasional Paper No. 8 (Sydney: Reserve Bank of Australia, 1996).