

New Treasury head fan of Reagan's 1980s tax cuts

Jacob Greber, AFR 26 Feb 2014

New Treasury secretary John Fraser has declared he has an “old fashioned” dislike of government debt, said using budget spending to spur economic growth doesn't work and lauded Ronald Reagan's 1980s tax cuts for reigniting American entrepreneurial spirits.

The government's newest departmental secretary also cast doubt over the International Monetary Fund's credibility in recent years for emphasising the drawbacks of government austerity policies.

Mr Fraser said he took a different view to the International Monetary Fund's claims in the past year that tough budget cuts had done more damage than good, highlighting the “clear success” of budget repair in the United Kingdom and United States.

Speaking six weeks after taking office, Mr Fraser's remarks to a Senate committee point to a shift in economic philosophy at the top of Treasury. By buying into several highly contested debates of recent years, Mr Fraser signalled that his advice to Treasurer Joe Hockey is likely to be less pro-Keynesian (or supportive of government intervention in a downturn) than his immediate predecessors Martin Parkinson and Ken Henry. It suggests he is likely to push for a tougher May budget.

“My own view is that I approach fiscal stimulus in whatever circumstances with a great deal of care.”

He warned that while federal budget settings were important for long-term conditions in the economy, in the short term their impact was “more problematic”. “There are mountains of books as to short-term economic stabilisation of the budget. I've become more sceptical of its role in the short-term. There are very real implications for how we spend money and how we tax. I do not resile from the point that I don't think spending our way out of lower economic activity is the way to go.”

Later Mr Fraser said: “Spending your way out of these things just doesn't work.”

Asked what level of government debt would begin to drag on economic growth – a topic that in 2013 became a spectacular flashpoint between New York Times columnist Paul Krugman and Harvard academics Carmen Reinhart and Kenneth Rogoff in their 2010 research into debt growth and austerity – Mr Fraser said he had no amount in mind, but warned money spent on interest repayments could be better used elsewhere. “I'm old fashioned – I don't like public debt. I saw what happened in earlier decades like the '80s where we worked assiduously to get rid of it.”

He indicated that another reason for his debt phobia was because it would leave the country “liable to the vicissitudes of the market”. “When interest rates go up, as they did in the late '80s, we suddenly had public debt outlays taking a massive amount of outlays.”

Mr Fraser said he was worried that with the average cost of servicing federal government debt at around 3 per cent a year, Australia would be “exposed” when interest rates go up.

In a departure from the practice of Dr Parkinson and Dr Henry, Mr Fraser pointedly declined to defend the Labor government's 2008 and 2009 crisis-era stimulus spending as having been largely successful at supporting growth and jobs. Instead he said there were “no clear answers as to whether what was done was totally correct or perhaps could have been done better”.

He added that he had lived through the global financial crisis while managing UBS's global asset management business, an experience he described as "remarkably frightening". "I am loath, if you weren't there in the heat of battle, to make judgments about the efficacy or otherwise of the reaction by countries around the world. It was a very difficult situation, indeed an unprecedented one in the world's history."

Mr Fraser, a former top executive for the Swiss-based banking giant UBS, who has spent most of the past two decades in London, began his career at Treasury in the 1970s and rose to the rank of deputy secretary in the early 1990s, when he left the department to become a banker.

Labor's deputy chairman of the Senate economics committee, Sam Dastyari, said Mr Fraser's testimony revealed him to be a "Reaganite who doesn't believe in public debt". "He said he's old fashioned, but this is Marty McFly taking Treasury Back to the Future. It's important that Treasury maintains its longstanding tradition of impartial policy advice – the last thing we want to see here in Australia is Reagan's Voodoo Economics."

New Treasury boss John Fraser defends austerity and Ronald Reagan

SMH & AGE, February 25, 2015, Peter Martin, Gareth Hutchens

Head of Treasury John Fraser and Finance Minister Senator Mathias Cormann during a Senate estimates on Wednesday. Photo: Alex Ellinghausen

The new head of Australia's Treasury is a fan of the Ronald Reagan tax cuts in the US, believes austerity has had a bad press and is wary about using government spending to stimulate the economy.

Meet John Fraser, until a few weeks ago the head of UBS Global Asset Management in London. The Abbott government appointed him in December to replace the long-serving public servant Martin Parkinson, who stepped down after being told he didn't have the confidence of the prime minister.

Although he appeared before Senate estimates hearings in an earlier life when he worked for the Treasury in the early 1990s, Wednesday's appearance was Mr Fraser's first as departmental secretary.

And he was free with his opinions.

He was "a great believer" in the business and personal income tax cuts introduced by US president Ronald Reagan in the early 1980s. He was living in the US at the time and saw them up close. Their critics say they pushed the US budget deeper into deficit, but Mr Fraser told the hearing they "helped reinforce the entrepreneurial spirit which is alive in some of the smaller and medium-sized businesses in the US" which was one of the key reasons it did so well. Others were flexible labour and product markets.

Critics of austerity measures - including those in the International Monetary Fund - had failed to grasp their "clear success" in places such as the United Kingdom.

"I was in Great Britain when the IMF chief economist came to look, and he said he had been pleasantly surprised that the UK had been doing so well with the austerity program," he told the hearing. "I think the clear success in the UK is interesting, and I would there's been clear success also in the United States as well as elsewhere. But we are a sovereign nation, we are a proud sovereign nation, we have to tailor policies to our own conditions."

When it comes to using government spending to stimulate the economy, Mr Fraser is cautious. "My own view is that I approach fiscal stimulus, in whatever circumstances, with a great deal of care," he told the hearing. "I am old-fashioned. I don't like public debt. "One of the reasons I don't like it is because public debt leaves you liable to the vicissitudes of the market. So when interest rates go up as they did in the late 1980s we suddenly had public debt interest taking up a massive amount of outlays."

While interest payments on government debt at present take up less than 3 per cent of government income, Mr Fraser said the impost would grow rapidly when interest rates climbed. "To my mind that's money that could have been spent on better things, and I'll articulate that later in other places."

The Treasury's Intergenerational Report, due next week, would outline the twin problems of Australia's ageing population and government debt, he said. It would have "very real implications for how we spend our money, and indeed also how we tax".

Asked to endorse the actions of the treasury in running up debt during the global financial crisis in order to avoid recession, Mr Fraser said he wasn't in a position to judge. "I lived through it the global financial crisis and it was remarkably frightening, managing a very large global asset manager. "I am loath, if you weren't there in the heat of battle, to make judgments about the efficacy or otherwise of the reaction by countries around the world.

"It was a very difficult situation, indeed an unprecedented one in the world's history."

Tax cuts key to getting economy going: John Fraser

DAVID UREN, The Australian, February 26, 2015

TAX cuts are a better way of stimulating the economy than government spending, the new Treasury secretary John Fraser says, attributing the strength of the US economy in part to the benefits of Reagan-era tax cuts.

During a Senate estimates committee meeting yesterday, Mr Fraser declared a dislike for public debt and a determination to repair the budget. "I'm old fashioned. I don't like public debt. I don't like public debt because I saw what happened in earlier decades like the 80s where we worked assiduously to get rid of it."

With senators eager for his views on fiscal stimulus programs during the global financial crisis that were supported by his two predecessors, Martin Parkinson and Ken Henry, Mr Fraser said he was reluctant to criticise decisions taken at a time he said was "remarkably frightening".

"I'm loath, if you weren't there in the heat of the battle, to make judgments about the efficacy of reactions of countries around the world," he said. "It was a very difficult situation and unprecedented one in the world's history."

He said he was not certain in his own mind about the evidence, however he was doubtful about the ability of the budget to achieve short-term shifts in economic growth.

"I think the budget sets the scene for the longer term and medium term. It's a clear bellwether for where the country is going on a range of issues, not just the quantum of spending and revenue, but the make-up of the revenue items and the expenditure items. Its role in the short-term economic condition is more problematic. There's mountains of books on this as to short-term economic stabilisation. I personally have become more sceptical in the short term."

Pressed by Labor Senate leader and former finance minister Penny Wong on the need for stimulus measures during downturns, Mr Fraser said the focus should not be on the spending side.

"Don't forget the revenue side. I'm a great believer, when I was living in the States in the 1980s, in the impact of some of the Reagan tax cuts," he said.

“The quality of the tax cuts helped reinforce the entrepreneurial spirit, which is alive among small and medium business in the US, which I think is one of the reasons the US does so well. It’s got flexible labour and product markets.”

Although Mr Fraser was responding to questions on budget stimulus, his comments point to the economic justification for the tax cuts for small business that are expected to be included in the government’s forthcoming jobs package.

Mr Fraser expressed confidence in Australia’s ability to retain its AAA credit rating.

“It would have to be a pretty terrible event that would knock our AAA rating. The great thing about our country ... is that we recognise issues so that we can avoid anything like this ever occurring.

“I think there is a growing recognition that fiscal consolidation is something we have to face up to at some time.”