

# Swan is happy, but not all Australians are so impressed

Labor government treasurer Wayne Swan took the tiller just as the ripples from the US sub-prime crisis hit the country's shores. He has to convince his fellow citizens that he can cope with an unpropitious global situation and keep the country on an even keel. Eric Ellis reports



THERE MUST BE something in the water at Nambour State High School.

A rural secondary school in the heart of Australia's semi-tropical, deep north, sugar-belt state of Queensland, Nambour High is a modest institution little different to the other state-funded schools of its type across middle Australia.

And the school motto – “Traditional values, modern education” – is hardly going to be sufficient to get students bounding from morning assembly to greatness in public life. There's no noble *carpe diem* seizing Nambour's day, none of Eton's Latinesque flourish to inspire the fraternity from its playing fields to a glorious beyond.

But Nambour High is not only the alma mater of the relatively new Australian prime minister, Kevin Rudd (the school's head boy in 1974), barely a year in office after his Labor Party seized power from John Howard's conservative Liberal Party last November. Another Nambour old boy, Rudd's chief economic manager or treasurer, Wayne Swan, was three years ahead of Rudd at the school.

Unsurprisingly, Nambour's present principal, Wayne Troyahn, says his school's nurturing of such political luminaries speaks to “the quality of the teaching over a long period of time”. But politics and the economy are fickle beasts and the way Labor's Queensland leader-ship, the “Bananarati”, nicknamed after one of the semi-tropical state's primary exports, have started their rare try at high office, might mean that principal Troyahn will come to reconsider his boast.

A year after Labor took power, about the best description Australians can offer of the Rudd-Swan performance in office so far is “unremarkable”. Swan is being assailed as colourless, uninspiring and lacking what it takes to maintain the Great Australian Dream of limitless prosperity – to profit from the world, notably its Asian neighbours, while insulating the island nation from the downside of

globalization. Australia's vicious blogosphere is less charitable. Swan is a “rabbit caught in the headlights,” says one blogger. “Uncertain and unimpressive in the portfolio,” offers another. And then there is the usual laundry list of insults from the opposition in parliament – common fare in the robust rough and tumble of Australian politics.

“Given that Swan was reasonably well prepared for the job when he came into it, he did appear to be a bit overawed by it, a bit intimidated by it,” says Saul Eslake, chief economist at Australian bank ANZ, who nevertheless gives his management a tentative tick. “It's not rabbit in the headlights, that's too strong, but he didn't show a surety of touch as some of his colleagues did on coming into office. Even if things were starting to get difficult globally, no one could have possibly blamed him. I don't think it is any lack of understanding on his part but maybe a lack of confidence in what is really the first really big job that he's actually had.”

Swan disagrees. “I'd like to know what I haven't done,” he says. “The other criticism is that we have done too much. The fact is, we have done everything we said we would do. The hallmark of our first budget [in May] was that we implemented all our promises – not easy given the environment that developed. And secondly, we commenced plans on a very big reform programme spanning a significant period of a year, all the long-term issues that the other mob [John Howard's Liberal Party] put in the too-hard basket – all very substantial pieces of work.”

But events always dog politicians and Swan pleads that in his first year “the global economic conditions changed dramatically, that is what was unexpected”. However, the emerging crisis had been a feature of the election campaign. As the first signs of sub-prime turmoil began to buffet Australia, the then incumbent treasurer, Peter Costello, used his previous decade-long experience in office to unsc-

cessfully seek to convince voters that he alone had the right stuff to protect Australia.

Swan says: "From early January, when we had the second iteration of the credit crunch, two things happened: our domestic inflation forecasts were upgraded [inflation has hit a 16-year high, reaching back to the last time Labor was in office]; and then we had all the global issues, the sub-prime issues that put further pressure on borrowing costs, both for housing and business. And of course the march of the price of oil and the global inflation that came with it, at precisely the time we least wanted it.

"What the international uncertainty says to us, for the things we can control, is that we have to do our utmost to put in place the right settings."

### Unfair criticism

Swan says the criticism of his stewardship as lacklustre and directionless is unfair as Labor is still executing its election commitments. He ticks them off; training, infrastructure, computers in schools, tax reform, a national broadband network, affordable housing, an emissions trading scheme. "All these issues are burning," he says. "I don't think there is anything that is conducive to quick fixes. All these things are happening. We've had the quick fixes before and now we are living with the consequences. Everything we are doing, the fundamental reform, is generational."

Swan says changing global conditions didn't prompt a new economic platform to replace the one Labor was voted into office on. "Not at all – our platform was very much focused on bringing downward pressure on inflation and downward pressure on interest rates," he says. "Part of the debate in the campaign was that rates had risen six times in three years and 10 times on the trot – a very significant issue that was putting a lot of families under financial pressure. Our orientations were right; it's just that the need for their implementation became more urgent."

It has been a pretty good job running Australia's economy over the past 20 to 25 years – some would even say an easy job. The country has a lot of what booming China wants, notably massive deposits of iron ore, manganese, copper and the myriad other minerals that are helping build the new China. A succession of governments have languidly pointed Australia northward – the existing markets of Korea, Japan and the southeast Asian Tigers are a bonus – and helped make Australians some of the world's richest people. The wealthiest Australian, a title that for decades was a contest between media moguls Rupert Murdoch, the late Kerry Packer and then his son Jamie, is now a 40-something mining magnate, Andrew Forrest, whose Fortescue Mining sells its iron ore solely to big Chinese state enterprises.

Labor unexpectedly won office last year amid the longest stretch of economic expansion in Australian history. Strong economies usually guarantee re-election but Australians had grown tired of the hard-line conservatism of John Howard. Labor's proposal of overdue social reform, while promising not to tinker too much with the purring resource-based economy, won voters willing to give them a chance. But after a spate of politically symbolic acts – joining the Kyoto treaty; apologizing to indigenous Australians for past racial abuses by the white leadership; softening a hard-line on immigration – the Rudd-Swan team seems to be struggling for inspiration as the economy begins to weaken, with some commentators even suggesting there's a

recession on the way. Indeed, Labor's greatest tangible achievement so far has been to win office against the odds. The honour of being *Euromoney's* finance minister of the year, an accolade awarded to Swan's Labor predecessor, Paul Keating, but one he was later taunted with as the economy tanked on his watch, seems some way off for Swan.

### Beyond his control

To be fair, it's not all Swan's fault, not that Australians – in what is not the most globally aware of polities – see it that way. Rudd-Swan's accession to power coincided almost to the day with the sub-prime banking crisis starting to accelerate out of the US. Australian banks are largely shielded from the worst of the crisis's impact, and China's voracious appetite for Australian resources has also been a cushion, but US contagion is spilling over. A net oil importer and big domestic petroleum consumer, Australia took the oil shock too. A year on, the economy's leading indicators are showing their weakest levels in eight years. Property prices are softening, and consumers are keeping wallets and purses closed as they hunker down for a sustained downturn. After years of near Asian-style expansion, when Australia posted some of the most robust growth figures of the developed OECD nations, the "lucky country" is now bracing itself for a significant slowdown.

Swan agrees. Over breakfast with *Euromoney* in Sydney's Wentworth Hotel, he says: "There is unquestionably more pain to come in international financial markets. How it actually unfolds, nobody knows, but there are still write-downs to come.

"We are not directly affected because our deposit-taking institutions haven't been silly enough, to invest in some of these products. There is only a slight exposure, but we are not immune to the second round of effects: increased borrowing costs flowing through the system here, putting upward pressure on rates that are already high. We are not immune to the confidence fallout in our stockmarket, irrespective of the underlying fundamentals. All that has a big impact on confidence and consumer sentiment in this country, even though we are not directly exposed."

Indeed, it is on interest rates that Swan has arguably gained the most political ground, deflecting voter blame away from the government while making some corporate foes in doing so. Rate-setting rests exclusively with the Reserve Bank of Australia and Swan's manoeuvrability is limited. However, he seems to have taken it on himself to wage a public pressure campaign against the central bank to ease rates (it is expected to do so in September) while "advising" the big commercial banks – many enjoying near-record trading profits – to withhold extending any rises to their customers. Swan simply says he has the "highest regard" for the RBA and has passed legislation to reinforce the central bank's independence.

Still, there's the inevitable politics. The Howard-Costello team, he says, "certainly dropped the ball on inflation and they dropped it on the long-term productive investment to expand our capacity as well. As a consequence, we have not been in a position to maximize all the opportunities flowing from the mining boom. All the benefit we have taken has been in price not in volume, our critical infrastructure has been bedevilled with bottlenecks."

Swan argues that the previous government took the view that if they showed up in the office and pointed the resources sector toward China, their work would be done: "It's not only the Labor critique, it's the very conventional economic critique shared by most people".

"The country needs more than tweaking. We've put in place budget disciplines and got those sensible settings in place for a degree of long-term macroeconomic stability, but underlying that is a serious reform agenda, particularly in infrastructure and education. We are dealing with significant legacy issues left to us by the other mob and we accept responsibility for solving their mess," he says.

Perhaps so. But at some point – and Swan might have already passed it – this government is no longer new and will be called to account for its own actions by the electorate. "Yes, they [the electorate] will and they ought to, that will be their judgment," he says. "But the public also understands that inflation just didn't leap out of nowhere: that there were 20 Reserve Bank warnings to the previous government over a two-year period in this area." Swan continues to play politics to an international audience – *Euromoney's* – that doesn't much care about domestic hand-to-hand political combat. We remind Swan that this is not the local media he is talking to. "[The voter] understands that these things took some to develop and so they will take some time to deal with," he says. "Do we accept responsibility for dealing with it?" he asks rhetorically. "Absolutely we do." But Swan's passion on this suggests that Australians can expect more politics and blame-shifting if things begin to hurt.

"The economy is slowing, particularly on the back of the rate rises... but I think talk about recession is unhelpful," he says. "If there is one country in the world that is in a position to handle these international events, it's this country; strong terms of trade, strong budget surplus, the emerging world (Australia's trade partners in Asia) still growing strongly, banks generally in good condition."

### Regional approval

Swan refers to his recent hosting of finance ministers of the regional Asia Pacific Economic Co-operation forum, where he says Australia was complimented for "getting it right".

He says: "It wasn't just the obvious countries around the room, China or Indonesia, but countries like Peru or Mexico, and having them talk about adjustment, they were all talking about the Australian experience in quite a knowledgeable way. It shows how we've become open to the world and how the world is open to us.

"They look to the Australian experience as a classic example of structural reform. When the OECD hands around its competition toolkit, they hand around the Australian experience," he says. "We are seen as a country that has changed dramatically and prospered as a consequence from its engagement with globalization."

He adds: "The globalized nature of the economy means you've got to have a world view," he says, noting that he hasn't travelled as much as he would have liked in this first year in office.

Swan is insistent that the international community, notably the G-20 and G-8 groups of nations, "has got to make more progress in implementing some of the recommendations made to them regarding financial stability. I don't know if they are going that far but it's absolutely critical we get a greater degree of supervision in the international financial markets." He says he and prime minister Rudd

will continue to push "our reasonably strong view" for these reforms in international forums, such as the upcoming World Bank and IMF annual meetings.

A 54 year-old father of three (his eldest daughter plays in a rock band), Wayne Swan is Australian politics' new Mr Beige, a man who, despite a long career in the Labor machine, many electors see as having risen without trace. Indeed, it's hard to picture Swan swinging sufficiently stinging elbows in the raucous backrooms of Australia's Labor traditions to have risen to the powerful office of treasurer. He affects the air of a suburban bank manager or, more to the point, a mid-ranking shire functionary deliberating on, say, building permits. That's unsurprising given that he spent 12 years lecturing in public administration at Queensland's Institute of Technology in Brisbane. But that masks a solid apprenticeship at the feet of Labor luminaries. Swan had been secretary of the Queensland state Labor Party, and he did his time learning and advising party grandees. He was an adviser to Queensland's last Labor treasurer, Bill Hayden, and a succession of head-kicking party numbers men. In 1993, Labor's last electoral triumph (under Paul Keating) before last year's election, he entered

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parliament representing the middle-class Brisbane seat of Lilley, only to lose it in 1996 in the John Howard landslide. Swan won back Lilley in 1998 and has doggedly held the seat since, turning it into safe Labor territory. By all accounts, he has been an assiduous local member, although it is a mark of the man that there are precious few colourful anecdotes about him. Swan is a machine politician in an emerging state that has

benefited from internal immigration from the colder, more expensive and populated southern heartland states of New South Wales and Victoria, home to all but six of Australia's 36 treasurers (and 18 of the 26 prime ministers).

### Pimplly praetorian guard

Swan seems a careful man, and, like many of his cabinet colleagues, has surrounded himself with an almost praetorian guard of pimply protectors and minders – "The Brownshirts" as they are known in Australia's capital, Canberra – who still have a fair way to go to finesse their skills with the silky blend of subtlety and intimidation required to advance their boss. This correspondent spent a painstaking three months negotiating with them to set up two engagements with Swan, finally being invited to a first that was billed as his candid sparring with many of Australia's business leaders at an influential Sydney thinktank's dinner, and a second that was the formal Wentworth Hotel interview.

But, at the last minute, we were banned from the more relevant of the two meetings, the thinktank dinner, as blame was batted back between Swan's office and conference organizers. Still, Swan's amateurish minders continued to push for a cover story for their man, which was never going to happen, all the while lauding his willingness to be scrutinized. It opened a revealing and not particularly edifying window into a new government that likes to parade itself as setting new standards in transparency and openness. In the interview, Swan

demurred discussing four topics: an optimal level for the Australian dollar, economic forecasts, foreign bank expansion in Australia and the central bank's interest rate policy.

The influential Australian economist Saul Eslake has observed five Australian treasurers at close quarters in near two decades as a senior economist, mostly at Australian bank ANZ. Of the five, he defines the era by three of them; Labor's Paul Keating, who went on to become prime minister after eight years as treasurer through the 1980s; the Liberal's Peter Costello, John Howard's treasurer for the entire 11-year conservative term that followed Keating, and a man who couldn't quite summon the courage to challenge Howard for the leadership; and Swan, by virtue of his incumbency.

Eslake relishes the debate, the cut and thrust of public life. His exchanges, or lack of them in some instances, with various treasurers have become the stuff of lore among his peers. One measure Eslake uses to gauge the competence of those running Australia's economy is how willing they are to debate it – to throw ideas around. They don't have to agree with him, he says, but the democratic airing of ideas is conducive to good policymaking, to take the pulse, to know what to hold, and what to discard. No economist, Keating was a political animal credited with instituting the most far-reaching structural reforms of the modern Australian economy, a man who, Eslake says, "loved the rough stuff." Economists on the national stage would offer a view of Keating's competence, not always complimentary, and more often than not, Keating would return fire with a few rhetorical bombs at the economists' annual dinner, and often with closer combat. "He was willing to engage in debate directly, sometimes to the point of ringing them up and verbally haranguing them in the foulest of terms, rather than seek to have them silenced by exerting covert pressure on their bosses," Eslake says.

Costello's style was different. Although he and Eslake were at university together and were fellow ideological travellers in the Liberal Party, Costello's approach to one Eslake critique of his handling of the economy was to intimidate him. An Eslake speech to the national accounts body raised Costello's ire such that he called Eslake's bosses at ANZ and intimated that they might wish to rein in their outspoken underling for the sake of the bank's activities. It was behaviour, Eslake says, "akin to autocracies and dictatorships".

"Costello never put himself in a position where the depth of his knowledge of the portfolio might be tested by people who knew at least as much about it as he did," says Eslake. "Howard as prime minister twice invited the chief economists of the major banks to dinner at The Lodge."

To Eslake and his peers, Swan is stylistically somewhere between Keating and Costello. When Swan was appointed shadow treasurer in 2004, Eslake was asked by a journalist what he thought of the appointment. Eslake glibly posited that it was clear Swan "could count" given that he had the numbers in the party room to win a leading role in the shadow government, but hadn't yet evinced any particular interest in economic policy. The next day, Swan cold-called Eslake, whom he didn't know, and let loose with a verbal spray "berating me as if I were an errant backbencher who'd been caught voting for the wrong candidate in a caucus ballot and needed to be reminded who'd rigged my preselection". Eslake held his own, Swan reminded him of his academic credentials and the two toughed it out to a middle ground, Eslake suggesting to him "that a small part of your job is to

convince people like me you know what you are talking about, so why don't we start again."

And they did. Years on and with mutual respect forged, now they try to get together whenever they are in the same town and have a Keatingesque run through the issues. ("Is Saul still telling that anecdote?" asks Swan, laughing, when *Euromoney* later puts the story to him. "He revises it each time just a little, perhaps to suit him.")

Eslake says: "Swan was one of the three hardest-working shadow treasurers I've known in 25 years, and he was successful in putting together an alternative narrative as to why the economy was doing well under Costello – the mining boom and so on – and that it's not difficult to be treasurer under those circumstances and moreover it should be doing better."

For all his political slugging off of the Howard-Costello years, one policy from the previous government Swan remains wedded to is the almost notorious "Four pillars", which protect Australia's big-four banks – ANZ, National Australia Bank, Westpac and Commonwealth Bank – from merger and takeover, be it domestically or, a lesser tested circumstance, by a foreign bank.

"I argue the case in terms of financial stability," Swan says. "Given the conditions we've seen in the last six months, having two banks rather than four is a formula for enhancing stability in the system.

"Competition is important in the system, so for both reasons, competition and stability, but principally it is stability and for that reason we have opted to maintain four pillars. But I can see it is a bit inconvenient for some of the banks."

### Open to investors

Similarly, on the increasing activities of sovereign wealth funds, seen by many Australians as renationalization by stealth, albeit by a foreign power, Swan says Australia remains "very open" to foreign investors from anywhere and will make any "national interest" judgements on a case-by-case basis. "We will make those interest judgements based on the extent those investments are market-orientated and not strategic-orientated and competitive."

He adds: "We are not interested in investments that aim to take over the supply chain," a nod to recent moves by state-owned Chinese resource companies to secure their Australian sources with takeover bids. He says he doesn't detect any increasing economic nationalism among Australian voters.

Swan says there has been "moaning" from abroad that his government is appearing hostile to foreign investors, particularly sovereign funds from Asia, to which he counters that he has approved a Chinese acquisition proposal once every two weeks since coming to office. "The Chinese are as welcome as the Japanese were, the Koreans were, and still are. We are sitting in the right place, with a lot of things going for us. But we need the capital to take us further."

There'll always be critics on the other side of the agenda, says Swan. But amid the mounting criticism, he seems calm and says he is enjoying the task. Unlike the unrequited ambition of his predecessor as treasurer, Peter Costello, Swan emphatically states he does not hanker after his old schoolchum Kevin Rudd's job as prime minister. "It doesn't get any better than this for me" he says.

"It's a great job. It's what I expected it to be: a big job, challenging, not daunting and you've got to be across a lot of areas, domestically and internationally. I'm pretty happy with the job I've got."

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