

Silly Billy - the policy goat

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Sir William McMahon is back in the spotlight but things don't look too bright, writes John Hewson.

The world of early 2002 seems to have turned, justifiably, on former Liberal prime minister Sir William McMahon, better referred to as "Billy", for the policy "goat" he really was.

The recently released Cabinet papers for 1971 clearly reveal the full extent of his policy incapacity and ad hockery, not to mention the paucity of his so-called leadership.

The late 1960s and early '70s were a period of fundamental structural change socially, politically, regionally and economically. Student radicalism was intent. Civil rights movements were gaining considerable momentum. And we were progressively losing the unpopular war in Vietnam.

It was also the halcyon days of the "big government is best" syndrome, which probably reached its zenith in George McGovern's campaign for the US presidency in 1972. You know, don't ask what you can do for your country, but what your government can do for you!

It was a time when our economic fortunes were rapidly changing in the context of the collapse of the Bretton Woods system of fixed exchange rates. It was also a time of changing regional tensions and opportunities, especially in terms of relationships with Singapore and China.

In these circumstances, Billy's government failed to deal effectively with a host of issues, including recognition of, and trade with, China, Aboriginal land rights, the White Australia policy, our military presence in Singapore and the management of our exchange rate post-Bretton Woods.

It was clearly a period that called for strong and insightful leadership. Yet all we had was Billy, who not only had his personal inadequacies to contend with, but who compounded the situation by significantly increasing personal animosity among his Liberal colleagues and by heightening Coalition tensions. He also became increasingly electorally unpopular, no match for Whitlam, and an object of increasing ridicule.

Yet, despite all this, he was somehow widely accepted as the best treasurer Australia had had. As a professional economist, this has always irked me. But, even today, many would still claim that to be true, and that's despite Paul Keating's success in his early years as treasurer, when he won the accolade from some international investment magazine as the "World's Greatest Treasurer".

There are probably two main reasons this image of Billy as a successful treasurer persisted. First, his time as treasurer from the beginning of 1966 to nearly the end of 1969 was generally seen as a pretty good and stable economic period for Australia, despite the significant economic structural changes that were under way.

Second, Treasury and others had worked hard in the media and elsewhere to build this reputation for Billy.

As it was explained to me by a very senior Treasury official towards the end of the 1970s, from Treasury's point of view, in the world of bureaucratic and political infighting, Billy was simply "the best". The reason? Well, when Treasury had given Billy a fairly lightweight brief on a key issue, he'd rarely if ever question it, and then he'd go into Cabinet and simply never say die. Yet when they gave him a heavyweight brief on a lightweight issue, he'd go into Cabinet and "bloody well kill 'em".

As treasurer, Billy did exactly what Treasury wanted. He did not know enough to recognise when he was out of his depth and his ego would not let him give in.

Unfortunately for Australia, Treasury at that time was not recognising the full significance of some fundamental economic changes.

Indeed, even as late as 1974-75, in the aftermath of the collapse of the Bretton Woods system and the quadrupling of oil prices in 1973, many in the official family still believed the fiscal imbalances, the accelerating wages and price pressures and rising unemployment were all reversible, in the near term.

They failed to recognise the long-term structural nature of many of these changes that would dominate the Australian economic landscape for the next two to three decades.

Interestingly, once Billy became prime minister he didn't always take the Treasury line, at times swaying to other pressures and considerations.

Perhaps the most disastrous example of this was the 1971 decision, after three days of acrimonious debate, to devalue, rather than revalue, the Australian dollar.

Under pressure from the leader of the National Party, Doug Anthony, who threatened to take his party out of the Coalition, Billy overrode the arguments of the then treasurer, Bill Snedden, and the Treasury.

The decision to devalue was a tragic mistake, as was the prime minister who drove it.