

Recent Howard Budgets resembled 'Christmas night at the pirate cave', in the phrase of a former Budget analyst with the Treasury and Department of Finance, Stephen Anthony, of the consultancy Macroeconomics.com.au. The chief problem for governments, Arthur Sinodinos explained, is that 'you can't sit on big heaps of money . . . The government's also been spending money and getting criticised by people for spending money. But, I mean, I think you have to do that. [It is] very hard to sit on very large surpluses. So you're caught between a rock and a hard place. And to some extent we did try to get around the problem by setting up all these future funds—creating these streams of revenue for the future. But our worst nightmare was you might sit on these surpluses, get lambasted by the public for doing it, and then have Labor or someone else come in and spend them anyway.' That happened in Victoria after Premier Jeff Kennett lost power in 1999. He 'left a fair bit of money that the Victorian Labor Party lived off for years,' Sinodinos said. 'That became folklore within the Liberal Party—why should you hang on to the surpluses? Because your opponents would just come along and spend them.'

The Howard Government did receive a steady stream of expert criticism for being too lax in its fiscal policy, but it was reluctant to listen. It's notable that the Treasury's tough assessment was published only after Howard lost power. Saul Eslake, the ANZ Bank's chief economist, was one of the Government's most consistent and forthright critics. He was neither strident nor partisan—early on, he routinely commended the Government's fiscal performance. But Eslake kept a running tally of the windfall revenues that accrued to the national revenue, and the large percentage that the Government was giving away as spending and tax cuts. He also made unflattering remarks about the Government's accounting practices. He was well qualified—he had been chief executive of the Victorian Audit Commission in 1992–93.

Treasurer Costello's reaction was to try to pressure the ANZ into silencing Eslake. On one occasion, in February 2002, the economist was asked at a conference in Hobart whether the Government ever used 'creative accounting'. Yes, it did, he said. For example, it ordered

the Reserve Bank to make dividend payments to the Government at times that suited the Government's political convenience. But, Eslake added, it was no worse than the Labor Government that had gone before it. When these remarks were reported in the media, Costello phoned the ANZ Bank's chief executive, John McFarlane and vented his anger. McFarlane was left feeling concerned about the consequences for the bank, so according to Eslake, McFarlane relayed to his chief economist that the Treasurer had threatened to take 'regulatory action that ANZ wouldn't like, because of some mildly critical observations I'd made about the Government's accounting practices'. Eslake phoned Costello to apologise, but the Treasurer would not take the call.

McFarlane chided Eslake in an email: 'The important thing to remember going forward is the big picture for ANZ and to avoid pushing the boundaries for little gain.' Eslake promised not to comment on the Government's accounting practices again. He kept his word, even in 2003 when the Reserve Bank disclosed that, at the direction of the Treasurer, it was deferring until 2004–05 the payment of a dividend to the Government of \$964 million that would normally have been paid in 2003–04.

Eslake contented himself with an email to McFarlane, pointing this out and observing that 'as you will recall, this Government never, ever engages in creative accounting'. His boss commended him for refraining from public comment—'thank you for taking the greater good of ANZ and an easier life for me into account', McFarlane wrote back. Eslake did continue to comment publicly on the Government's taxing and spending. But Costello's threat of regulatory retaliation had successfully stopped this expert from openly criticising the Government for its treatment of public finances.

Costello waged an unending war over Budgets inside the Government, and he was ready to take the fight to commentators outside the Government as well.