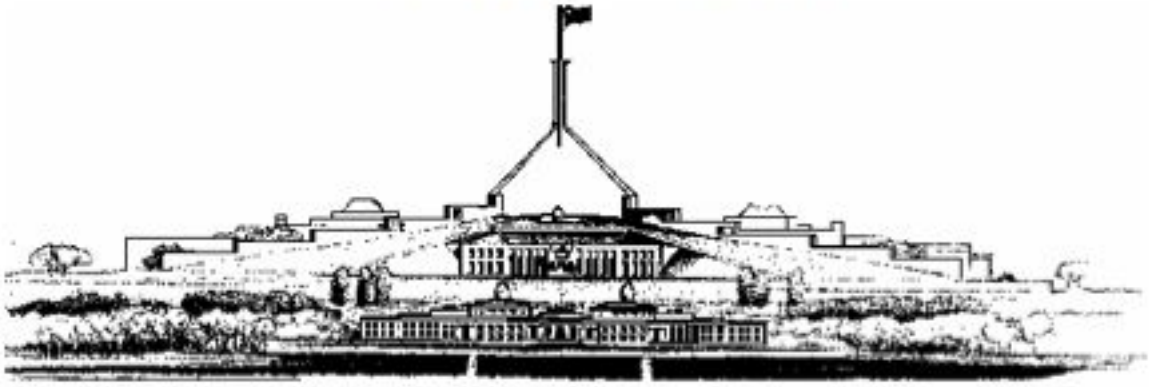
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

APPROPRIATION BILL (NO. 3) 1999-2000

APPROPRIATION BILL (NO. 4) 1999-2000

Second Reading

SPEECH

Tuesday, 15 February 2000

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Tuesday, 15 February 2000	**Source**	House
Page	13498	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (10.05 pm)—It is time for the Treasurer's fiscal reality check. Does the performance of the Howard-Costello government still match its claims of careful fiscal management, which it said was its priority when it came to office? In the 1996 budget, the Treasurer claimed that he would achieve about $8 billion in savings by the end of the third out year. That third out year is this financial year, so it is appropriate and, with the publication of the midyear review in November, now possible to get a good handle on what the Treasurer has achieved. For the purpose of this analysis, I have compiled a table of the policy decisions taken by the government from the summary measures tables contained in the Treasurer's own budget papers for 1996 to 1999 and from his midyear economic and fiscal outlook papers for each of those years. The table contains only 16 numbers. I seek leave to have it incorporated in *Hansard*.

Leave granted.

The table read as follows—

NET IMPACT OF POLICY DECISIONS 1996 - 1999

$BILLION							
	96/97	97/98	98/99	99/2000	2000/1	2001/2	2002/3
1996	-3.2	-6.9	-6.1	-7.6			
1997		0.4	1.5	1.3	0.4		
1998			2.1	3.2	7.2	7.6	
1999				2.4	2.1	4.4	1.9

Compiled from outlays (expense) and revenue measures tables in each year's Budget papers and Mid-Year Economic and Fiscal Outlook

Mr COX—The table was compiled using only the measures tables published by the government in the relevant budget years the policy decisions were taken. It contains no allowance for any subsequent estimates, revisions or parameter changes and is rounded off to the nearest hundred million dollars.

Mr McGauran—By whom—you?

Mr COX—By me. If the Treasurer would like to dispute my analysis, I invite him to have Treasury prepare the same table from its more detailed unpublished records. The table was headed `Net Impact of Policy Decisions 1996-1999'. It shows that the net effect of those policy decisions taken in 1996 and recorded in the budget papers and the midyear economic and fiscal outlook review tightened fiscal policy by about $3.2 billion in 1996-97, $6.9 billion in 1997-98, $6.1 billion in 1998-99 and $7.6 billion in 1999-2000. The net effect of the policy decisions taken in 1997 had the opposite effect a loosening of fiscal policy by $0.4 billion in 1997-98, by $1.5 billion in 1998-99, by $1.3 billion in 1999-2000 and by $0.4 billion in 2000-01. That fiscal loosening continued in 1998 by $2.1 billion in 1998-99, by $3.2 billion in 1999-2000, by $7.2 billion in 2000-01 and by $7.6 billion in 2001-02. In 1999 the pattern of fiscal loosening was once more repeated by $2.4 billion in 1999-2000, by $2.1 billion in 2000-01, by $4.4 billion in 2001-02 and by $1.9 billion in 2002-03.

The dramatic negative impact on Australia's fiscal position of policy decisions affecting the financial years after the one we are now in are attributable to the government's new tax system. The fact that that fiscal loosening is about to occur is well known, and I will reflect on whether it is wise to be making so substantial a change to the stance of policy at this time a little later. Before doing that, I want to examine what the figures I have presented say about the performance of the government and the Treasurer up until the new tax system comes into effect. There is no doubt that when it was elected the government took dramatic action on the fiscal front.

Mr Melham—That's an understatement.

Mr COX—It is indeed an understatement. In its first year the government did take decisions which tightened fiscal policy substantially, particularly in the out years. What was done to achieve that fiscal tightening included

substantial elements of brutality, callousness, revenge, score settling, ideology, politics and a large measure of incompetence. Where the measures were driven by political motives or revenge, various interest groups which had offended the coalition were closely targeted. But, to an informed observer, judging by some of the outcomes, much of the process was quite indiscriminate. Some of the policy outcomes, particularly in areas like health and education, were not particularly smart in policy terms. The government's attacks on the budgets of public hospitals and universities were particularly short-sighted, but then it needs to be recognised that the government was going for quantity not quality. The Treasurer, who regards himself as a hard man, would probably not be too unhappy about this description except, that is, when he is forced to play down his participation in the activities of the New Right during the 1980s which got him into this place because of his pressing need to chase the votes of Liberal Party moderates. But I should be careful not to digress too far from my analysis of the Treasurer's fiscal record.

The 1996 midyear review shows that the Treasurer kept a fairly tight rein on his colleagues at least for the rest of that year. There was an additional $600 million in additional spending after the budget, but the out year effects were contained at less than a third of that. The 1997 budget contained significant savings measures, but these were offset by new spending and tax cuts, with a small net contribution to the fiscal position in the third out year. However, the 1997 midyear review shows that the brakes were off and spending was starting to roll. New spending decisions totalling almost $400 million were taken but, by the third out year, they would cost more than three times that. 1998 was, of course, an election year. The budget contained some modest spending initiatives costing about $1.4 billion and some small cuts in taxes offset by politically cautious small savings and revenue measures. The effect of these decisions in the third out year was a further loosening in fiscal policy of about $2.2 billion.

The 1998 midyear review shows that, over the period between the May budget and the October election, there was a lot of additional spending, which turned a net $1.3 billion fiscal loosening into a net $2.1 billion loosening, rising to $3.2 billion in the financial year we are now in. The election also meant the now illusory $7 billion tax cut bribe to get the GST in or, more correctly, the government re-elected, but I will deal with that later. The 1998 budget again saw a loosening of the purse strings on spending—this time by about $1.2 billion. By the time the midyear review was published, that loosening had doubled to $2.4 billion. What is the sum total of this inexorable process of fiscal loosening even before the introduction of the GST? The Treasurer, by his fiscal laxity, has allowed all of the $8 billion worth of savings he achieved in his first budget to be wiped out. The net effect of all the policy decisions taken since the 1996 budget has been to dissipate the annual savings made in that budget. That has taken only a little over three years. It seemed that the Treasurer had contracted a case of fiscal fatigue after only 12 months.

How has growth in the government's other outlaysthose that have grown other than as a consequence of policy decisionsbeen financed and how have surpluses been achieved? From three sources: the proceeds of asset sales, some of which have been explicitly hypothecated to expenditure; the proceeds of economic growth, both in terms of revenue growth and reduced outlays; and reductions in public debt interest on account of both reduced debt levels and lower interest rates. The last two of these are in fact cyclical phenomena. Governments, by good policy, can contribute to their being prolonged or perhaps not being shortened, but they are not in themselves necessarily a result of fiscal discipline. In the present situation I would say that they are masking some lack of fiscal discipline.

There are some other signs of the present shortcomings of fiscal policy. The 1999-2000 budget papers show that Commonwealth underlying own purpose outlays, as a percentage of GDP, have risen from 20.5 per cent, their level as a result of Labor's last budget, to an estimated 21.4 per cent this financial year. Likewise, the table showing the percentage change in underlying outlays reveals that the Costello period of fiscal consolidation on the outlays side has been comparatively short. Contraction occurred only in 1997-98 of 1.7 per cent, the deferred effect of the 1996 budget measures. However, comparisons with subsequent years are meaningless due to the inclusion of accumulated public trading enterprise superannuation liabilities.

Certainly the 1999-2000 budget showed the prospect of a strengthening fiscal position in future years. But, in his post-budget speech to the Australian Business Economists, the Secretary to the Treasury, Ted Evans, put this in historical perspective when he said:

Looking at ... the underlying cash balance over a long period, we see that surpluses stretch out into the projection period. We should keep in mind, however, that of the six years of surplus there shown, only one is currently behind us. The 1999-2000 surplus we could take as being recently assured, but beyond that we are

talking about mere projections, subject to all of the uncertainties of the world economy. Taking the 1999-2000 surplus as being `in the bag', the cumulative surplus over the three years would amount to 1.5 per cent of annual GDP. The scale of that might be assessed against the surpluses in the late 1980s, our last period of fiscal consolidation.

That was Labor's period of fiscal consolidation. He continued:

On that earlier occasion, the cumulative surplus over the first three years amounted to 4.1 per cent of annual GDPwell over twice that achieved in the latest round.

The Secretary to the Treasury is not the only person sounding this warning. The Access Economics *Budget Monitor* released in May said:

A champagne economy (rather than policy-driven increases in tax rates or bases) is handing the Treasury rising revenues on a platter. However, it is at times like this that clients should remember that the revenue bonanza of the moment is rather more cyclical than structural. What the upswing of the current business cycle has delivered to the Budget may be swept away just as easily in the next downswing of the business cycle.

Certainly, for all the Treasurer's own claims of the brilliance of his financial management, only an irrational optimist would claim he had cancelled the business cycle. By the end of the year, the tenuous nature of his claim to a robust fiscal position had been exposed by the Timor deployment and the need for an increase in the Medicare levywillingly agreed to by Laborto pay for it and avoid a subsequent deficit.

The big issue now is the appropriateness of the stance on fiscal policy with a significant additional fiscal loosening locked in for July with the commencement of the GST and the other elements of the new tax system. This discretionary loosening, which is approaching $10 billion in 2000-01, is happening when the Reserve Bank is already being forced to tighten monetary policy and when the current account deficit is still running at around six per cent of GDP. Again, in his post-budget Australian Business Economists speech, the Secretary to the Treasury, Ted Evans, warned:

In recent years, we have not been asking monetary policy to address the current account problem. Rather emphasis has been appropriately put on the role of fiscal policy—the generator of budget surpluses and contributor to national saving—to do that job, leaving monetary policy free to concentrate on its objective of maintaining low inflation without undue constraint on growth.

This is a very desirable balance in the use of monetary and fiscal policies which may hold part of the answer to our longstanding current account concern; it is also part of the framework which underlies the judgments on medium term growth potential.

The simultaneous achievement of sustainable CAD outcomes and low and stable inflation would be put at risk by a complacent attitude to the use of fiscal surpluses. A breakdown in the performance of one policy inevitably compromises the other.

My fear is that `a complacent attitude to the use of fiscal surpluses' is exactly what we are seeing with this dramatic loosening of fiscal policy provided by the Howard government's so-called new tax system. If fiscal policy is the correct instrument to control the current account, why is the government loosening fiscal policy when the current account deficit is already high? The answer is that the Treasurer is not focused on the risk. The government has been in a state of self-congratulation since its first two budgets, believing that all the hard work has been done. A long period of economic growth and low interest rates up till now and the proceeds of asset sales have masked the danger signals. No-one in the government seems to have noticed or cared that the hard won gains of their first two budgetsand they were hard won if you were among the millions of members of the Australian community who were forced to bear the consequences of those policy measureshave been allowed to run into the fiscal sand. Australians now face an uncertain future with a new tax, with the benefits shared as unequally as the consequences of the Treasurer's earlier fiscal policy. That tax policy also involves a loosening of fiscal policy that brings with it a substantial element of macro-economic risk.

Debate (on motion by **Mr McGauran**) adjourned.