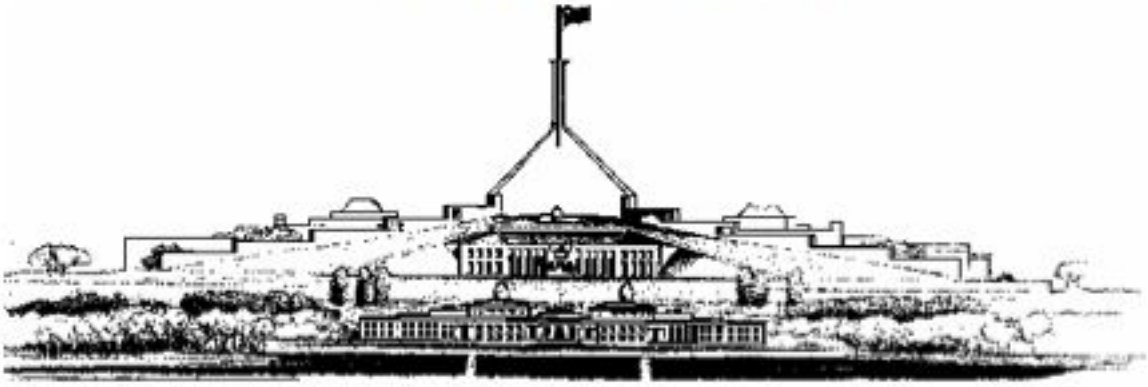
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

APPROPRIATION BILL (NO. 1) 2000-2001

Second Reading

SPEECH

Tuesday, 6 June 2000

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Tuesday, 6 June 2000	**Source**	House
Page	17148	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (9.34 pm)—I recently had published an analysis assessing the performance of the government against its claims of tight financial management. For the purpose of this analysis, I compiled a table showing the effect of policy decisions taken by the Howard government in each calendar year. This analysis used the net cost of each year's policy decision at the time it was taken. It made no allowance for subsequent estimates revisions or parameter changes.

In his first budget in August 1996, the Treasurer set about the task of achieving significant savings, which he did. It is important to remember that the government was going for quantity, not quality, when it made those cuts. It dug deeply into programs to reduce long-term unemployment and into higher education, as well as randomly into schools and public hospitals through a pain sharing arrangement inflicted on the states. The 1996 midyear review shows there was a billion dollar cost from post-budget measures, but the outyear effects were contained at less than one-third of that. The total effect of the government's policy decisions in 1996 on the 1996-97 financial year was a tightening of $2.9 billion, rising to $7.6 billion in the third outyear. That third outyear is the 1999-2000 financial year that is now drawing to a close.

The 1997 budget brought down in May contained significant savings measures, although these were partially offset by new spending and tax cuts. However, by the time of the midyear review in 1997, the brakes had come off and the government was fiscally freewheeling. New policy commitments totalling almost $400 million had been made, but by 1999-2000 those decisions would cost almost $1.5 billion. This was the turning point for fiscal policy under the Howard government. In every year since, the net effect of policy decisions has unwound the Treasurer's initial fiscal gains.

Having gained the treasury bench in March 1996 and made the budget bottom line the centrepiece of his economic management, the Treasurer went expeditiously about his task for his first two budgets, declaring victory over the deficit in May 1997. He then, after only a little more than a year, contracted a bad case of fiscal fatigue and allowed it all to be wasted. The 1998 budget was an election budget containing spending initiatives and tax cuts costing $1.4 billion, offset by some small saving and revenue measures. The effect of those decisions on the 1999-2000 financial year was a loosening of the fiscal position by $2.2 billion. The period between the budget and the election saw another $1 billion added to that figure.

Normally you expect government spending to be driven by the electoral cycle, with the reins being tightened after the poll. That has not been the case with the Howard government. So in 1999 they just went on spending, loosening fiscal policy by a further $2.5 billion. As a consequence, by Christmas 1999 the Treasurer had spent $6 billion of the $7.6 billion of savings he had made in 1996. That did not take into account the fiscal loosening associated with the introduction of the GST and related measures starting on 1 July 2000. At the time the 1999 midyear review was released the cost of all policy decisions taken since the end of the 1996 calendar year had weakened the budget bottom line for the 2000-01 financial year by $10.6 billion. That is more than a total wipe-out of the $8 billion in savings the Treasurer had made. In this year's budget the pattern has continued with a further loosening, taking the net cost of policy initiatives since 1996 to $12.7 billion. The Treasurer has gone from saver to big spender. I seek leave to incorporate in *Hansard* a table to correct the first table I published from this analysis. It is updated for the effect of policy decisions made since the 1999 midyear review and in the 2000 budget.

Leave granted.

The table read as follows—

NET IMPACT OF POLICY DECISIONS 1996 TO 2000 ON OUT-YEARS

	96/97	97/98	98/99	99/00	2000/01	2001/02	2002/03
1996	2860	7477	6083	7641			
1997		40	243	-187	-392		

1998			-2183	-3261	-7371	-7683	
1999				-2542	-2879	-3914	-2567
2000				-59	-2064	-1270	-1038

(Note change from cash to accrual accounts in 1999)

positive numbers represent improvements to the budget bottom line

negative numbers represent a deterioration in the budget bottom line

Source: Compiled from the reconciliation and measures tables in the Budget papers and Mid Year Economic and Fiscal Outlook for 1996 to 2000

Mr COX—The financial markets are now painfully aware that fiscal policy is loose and that this has been allowed to occur so late in the economic cycle. To be precise, after nine years of continuous economic growth, it is of great concern that this loosening has been allowed to continue through a period when Australia has been racking up high current account deficits. These high current account deficits should have been responded to some time ago with concerted action, in particular by tightening fiscal policy. To defend his latest budget against these charges of fiscal looseness, the Treasurer has relied on the claim that he has reduced Commonwealth debt by $50 billion. However, the extent of his dependence on asset sales to achieve that debt reduction should raise further concerns about his poor financial management. To be exact, the latest estimates show Commonwealth general government net debt falling from $95.8 billion on 30 June 1996, which was the end of the financial year covered by Labor's last budget, to an estimated $47.4 billion on 30 June 2001. That is a reduction of $48.4 billion. What the Treasurer failed to tell the public is that all that reduction in debt is attributable to asset sales. I seek leave to incorporate in *Hansard* a table that shows how over the Treasurer's five budgets the value of asset sales is expected to be $50.3 billion and will exceed the reduction in debt.

Leave granted.

The table read as follows—

CONTRIBUTION OF ASSET SALES TO REDUCTION IN COMMONWEALTH NET DEBT

1996/97 TO 2000/01

$ million				
	Sale of Non-Financial Assets	Sale of Financial Assets	Total Asset Sales	Reduction in Net Debt
1996/97	828	8,557	9,385	-500
1997/98	2,063	15,415	17,478	13,400
1998/99	701	65	766	12,500
1999/2000	2,223	10,147	12,370	14,100
2000/01	4,321	6,000	10,321	8,900
TOTAL	10,136	40,183	50,319	48,400

columns may not add due to rounding

Source:

OASITO sales list

Budget Paper No. 1 2000

ABS Government Financial Estimates 1999/2000 (5501.0)

Mr COX—That makes his claims of financial responsibility far less impressive and points to his total lack of progress in the critical field of fiscal consolidation. He has enjoyed five years of strong economic growth but has failed to grasp the opportunity to strengthen the nation's financial position. Aside from the need to reduce debt to avoid an increasing public debt interest bill resulting from rising interest rates, there are a number of good reasons to believe this conversion of assets into cash has in fact weakened the government's real financial position. The jump in share price after Telstra's initial listing showed that the government had failed to obtain full value for the

equity it sold. Then cash from the sale was explicitly used to buy votes in marginal coalition seats at the election. As we now know, the pork-barrelling has not stopped there and government spending cannot be sustained by this kind of debt and asset switch. The budget's structural weakness has also been made worse by selling high quality assets. For example, leasing key government buildings will cost the budget more in the long term.

The Treasurer's total reliance on asset sales to achieve his debt reduction targets is a sensitive issue. It has, therefore, been well hidden. Accrual accounts should have made these changes to the Commonwealth's assets and liabilities transparent. However, the opposite is the case because of the change in 1999 from cash to accrual presentation. It was necessary to go to three sources to compile the relevant numbers. The Australian Statistician is more obliging than the Treasurer, presenting accrual information going back to 1995. He shows the relevant asset sales under two headings. The first category is `Net cash flows from sales of non-financial assets'. These include the sale of assets like mobile phone spectrum and government buildings. There has been public discussion about the former but not about how the government has quietly disposed of a large part of the Commonwealth property portfolio. The second category is `Net cash flows from investments in financial assets for policy purposes'. These include the proceeds of the sale of government equity in corporations like Telstra.

But the Statistician's presentation does not tell the whole story. Net cash flows from investments in financial assets for policy purposes include repayments of loans by the states and former tertiary students that are not relevant to this analysis. It is, therefore, necessary to use asset sales figures published by the finance department's Office of Asset Sales and Information Technology Outsourcing to correct for the fact that these cash flows include receipts from financial assets which do not come within the definition of an asset sale.

Further complications arise because the Office of Asset Sales and Information Technology Outsourcing is also charged with selling some non-financial assets. The ABS's government financial estimates were published before the 2000 budget. It was therefore necessary to use the budget papers to complete the series on sales of non-financial assets. My figures in the table take these issues into account. I have also assumed a very conservative estimate of $6 billion on the second instalment of the Telstra 2 sale, which at the margin is dependent on special arrangements for loyal shareholders. I have not included any proceeds from the sale of other financial assets which may take place within the financial year 2000-01. The only thing the Treasurer has been prepared to be transparent about in his budget papers is the table showing the reduction in Commonwealth general government net debt. If the Treasurer wants to dispute my analysis, I invite him to publish his own comparison of his record on asset sales and debt reduction.

In summary, the shortcomings of the Treasurer's management of fiscal policy that I have described tonight are that he has spent more than he has saved, he has relied totally on asset sales to reduce debt, and he has in fact weakened and not strengthened the Commonwealth's financial position. Flowing from that, the critical issue that needs to be debated is where fiscal policy should be at this point in the economic cycle. Budget Paper No. 1 refers to the government's medium-term fiscal objective of achieving fiscal balance on average over the economic cycle. That implies the need for the government to be running significant surpluses as the economic cycle progresses so that debt can be reduced significantly so it will not be an impediment to allowing the natural budget stabilisers to operate when the economy eventually slows. That is appropriate financial management. But with both the surplus and debt reduction dependent on asset sales, after nine years of economic growth the stance of fiscal policy cannot be described as appropriate. The budget papers contain no detailed analysis of this position. This is a significant deficiency in the budget documentation and indicates by its absence that the objective of achieving fiscal balance over the course of the economic cycle is not being met.

A credible analysis of the position of the budget balance in relation to the economic cycle is contained in the latest Access Economics *Budget Monitor*. It was published just before the budget was handed down and shows a structural deficit for the 2000-01 financial year of $5.6 billion. That structural deficit can only have worsened as a result of the additional policy initiatives contained in the budget. Access Economics pointed to the risks associated with such a large structural deficit at so advanced a stage in the cycle, saying:

> The implications of that are simple. If the economy stumbles, then the red ink underlying the Budget aggregates will be laid bare quite fast. Although the plaudits for extra Government spending tend not to linger, the cost of that spending does.

In his annual post-budget address to the Australian Business Economists, the Secretary to the Treasury, Ted Evans, contradicted Access Economic's analysis. In his speaking notes, the secretary said:

> What is the structural balance? The Budget papers note that the Budget is in structural surplus; Access has said that it is in structural deficit. How many more possibilities are there?

Fortunately there is only one other absolute answer (balance) but, as there are more than three opinions on offer, there is, no doubt, a whole range of structural or deficit estimates available.

The fact is that the size of the structural balance is a matter of choice—one's choice of the capacity norm against which to measure the budget in question.

In the Access case, for example, one characteristic of their norm is an average unemployment rate of 8.4 per cent; so whenever the actual rate is below that, the relevant parts of the Budget estimates will contribute to structural deficit. We believe that the Australian economy can now produce a much better average unemployment performance than 8.4 per cent, so we arrive at different conclusions in our structural balance estimates.

Hence the results are essentially arbitrary.

It is for that reason, that we have never found the structural balance approach to be a particularly helpful policy tool—it simply has no discriminatory power. For these reasons we have not promoted the concept and have no intention of publishing.

Unfortunately, Mr Evans is wrong on the single assumption he chose to use to criticise the Access Economics analysis—the supposed 8.4 per cent unemployment norm. As is clearly stated on page 61 of the Access Economics *Budget Monitor*:

We have assumed that the structural level of unemployment is around 6.7% of the labour force. That is about the rate that the Access Economics Macro model estimates as Australia's sustainable rate of unemployment.

Unless Treasury has become wildly optimistic about continuing economic and employment growth, I would say that was much closer to what is probably Treasury's own estimate. It is therefore hard to explain how Access Economics have estimated a structural deficit of $5.6 billion while the budget papers claim a structural surplus. Given that Access Economics have published their assumptions, the onus is now on the Treasurer—given the error made by the Secretary to the Treasury—to substantiate the official assertion of a structural surplus by publishing the detail of Treasury's analysis. It is impossible for the government to engage intelligently in this debate without it.

(Quorum formed)