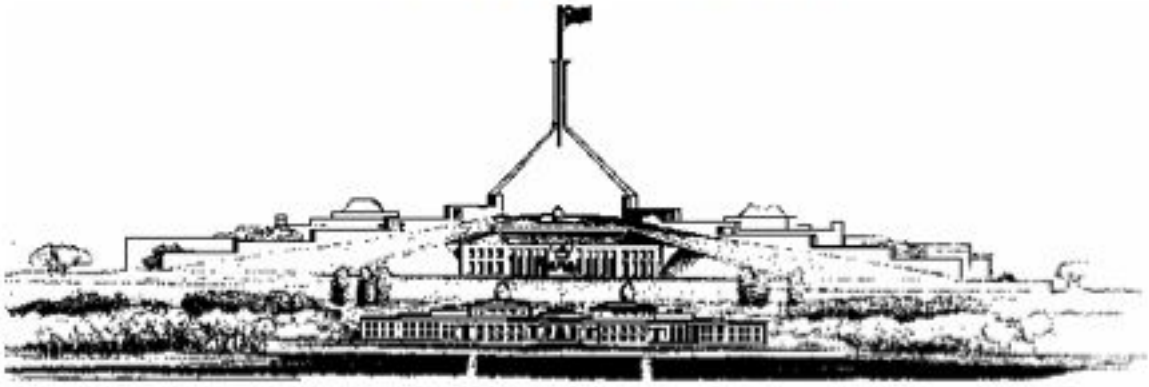
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

APPROPRIATION BILL (NO. 3) 2000-2001

APPROPRIATION BILL (NO. 4) 2000-2001

APPROPRIATION (PARLIAMENTARY DEPARTMENTS) BILL (NO. 2) 2000-2001

Second Reading

SPEECH

Wednesday, 28 February 2001

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Wednesday, 28 February 2001	**Source**	House
Page	24585	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (10.21 am)—I want to return to a subject I was talking about last night, and that is Shell's bid for Woodside. I met with the chairman and CEO of Shell this morning. They advised me that one of the issues they are addressing is the need for a new and independent company to market North West Shelf gas. It is proposed that Shell, through Woodside, would have only a 20 per cent interest in that entity. I believe this is recognition of Shell's competing interests in the Asia-Pacific LNG market that could conflict with the interests of the North West Shelf, and therefore our national interest. What concerns me, however, is that Shell advised me that the entity will not be in place before the deadline of 22 April for the government to deal with the current foreign investment application. Shell has no intention of even commencing negotiation of the arrangements to be put in place for this entity until after its takeover of Woodside is successful. That means that, if the Treasurer is contemplating making those independent marketing arrangements a condition of any approval, he is being asked to do so without those arrangements being in place. The Treasurer is being asked to agree to arrangements when he cannot do other than guess at their effectiveness because they have not been negotiated. That represents a major enforcement risk for any foreign investment approval.

I will now return to the subject of the budget that I was discussing last night—the $2 billion additional spending in this year and the out years that was revealed in the midyear review. This continues what has been an ongoing process of government decisions undermining the budget bottom line that began immediately after the 1997 budget. It is worth going over the history of Peter Costello's performance on fiscal policy. 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 out year. That third out year was the 1999-2000 financial year. 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. After only a little more than a year, the Treasurer contracted a bad case of fiscal fatigue. The 1998 budget was an election budget containing spending initiatives and tax cuts costing $1.4 billion, offset by some small savings 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. I think that we are likely to see a repetition of that sort of behaviour this year, after the budget.

Normally, you expect government spending to be driven by the electoral cycle, with the reins being tightened after the poll. That was not the case with the Howard government. In 1999 they just went on spending; in fact, 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. At the time of the midyear review in 1999, 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 and in the period up to the midyear review, the pattern has continued with a further fiscal loosening, taking the net cost of policy initiatives since the end of calendar year 1996 to $13.1 billion. The Treasurer has gone from saver to big spender. To defend his last 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 budget estimates show Commonwealth general government net debt falling from $95.8 billion on 30 June 1996 to an estimated $47.4 billion on 30 June 2001—a reduction of $48.4 billion. What the Treasurer failed to tell the public was that, at the time that estimate was made, all of that reduction in net debt was attributable to asset sales. In fact, $50.3 billion of asset sales were expected over that period. What has changed as a result of the midyear review is that, with parameter changes and, in particular, the anticipated high revenue growth this year, the reduction in net debt is now expected to be $52.2 billion over

the period. The amount of fiscal consolidation over the five years Peter Costello has been Treasurer that is not attributable to asset sales is $1.9 billion. If you assume that the government has obtained full value for the assets it has sold—a generous assumption in the case of this government—that amounts to an average improvement in the budget bottom line of less than $400 million a year net of asset sales.

It is worth raising some concerns about the parameter changes that were contained in the midyear review because we are continuing to get economic data which reflects on those. There are three that I would like to mention. There is a possibility of lower income tax receipts if employment growth continues to slow. It needs to be recognised that we have had a decrease in full-time jobs of 87,300 in the last four months. If unemployment is, in fact, higher than the 6.25 per cent level forecast in the midyear review, then expenditure on social security payments is likely to increase. There is also some concern about lower company tax receipts in the out years if company profits are below the forecast. Yesterday's company profits figure shows that the September quarter figures were revised down to show the biggest decline in a decade, while the December quarter figures, when adjusted for abnormals, fell a record 7.7 per cent in the ABS's new experimental series which tries to adjust the data to approximate the national accounts GOS measure. The only thing that is going to change the revenue situation from that is if there is additional GST revenue reflected in this year's budget.

The other thing that we are seeing at the moment is a government falling to pieces, and with it we are seeing a decline in fiscal discipline. We are seeing spending in a range of areas. We have had an innovation statement, which is $2.9 billion over five years; we have had roads funding of $1.6 billion over four years, which the Prime Minister claimed at the time was mutually exclusive with the petrol tax relief that he foreshadowed yesterday; and we have seen a Defence budget fiddle exposed, which involves the transfer of $350 million from capital in Defence to personnel costs—and that is going to be reflected in budget pressures down the track. Yesterday, most regrettably, we had the Treasurer's spectacular backdown on trusts, which is going to cost the budget $1 billion. Whatever the Treasurer says about picking up that revenue in future years, tax collection delayed is tax forgone.