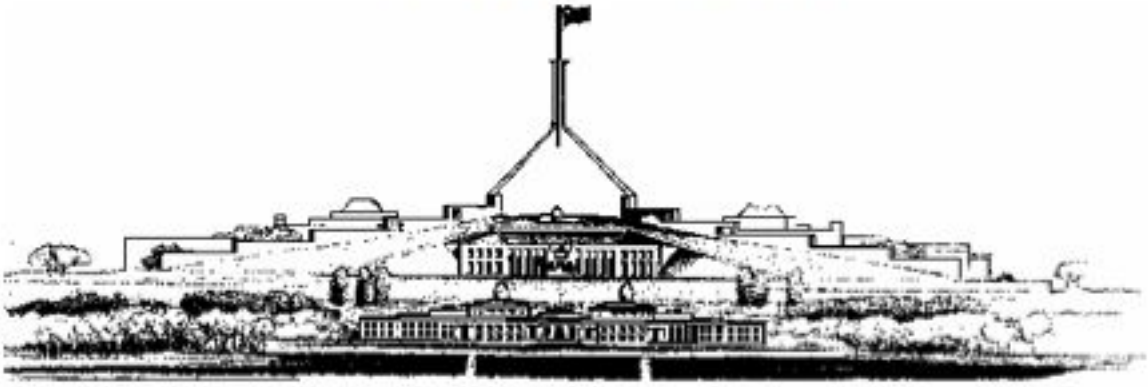
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

APPROPRIATION BILL (NO. 1) 2003-2004

Second Reading

SPEECH

Monday, 26 May 2003

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Monday, 26 May 2003	**Source**	House
Page	14946	**Proof**	No
Questioner		**Responder**	
Speaker	Cox, David, MP	**Question No.**	

Mr COX (Kingston) (7.48 pm)—I rise to speak on Appropriation Bill (No. 1) 2003-2004. The 2003 budget exposes the Treasurer's policy weakness. Australia is in its 13th year of almost continuous economic growth, disrupted only by the introduction of the GST, but the Treasurer is unable to provide for tax relief for bracket creep, unable to provide services—in particular, through Medicare—that Australians had previously enjoyed and unable to produce any major economic reforms, such as the major enhancements to Australia's international tax competitiveness that were promised by the discussion paper that his department issued for consultation last year. After 12 years of economic growth, the general level of taxation has risen and continues to grow, a rapidly escalating number of Australian families cannot find a bulk-billing doctor and the government's capacity to provide major economic reforms has all but stalled because of a lack of money.

Instead of economic reform, instead of some new initiatives that would restore Medicare and instead of tax cuts that would take the pressure off the budgets of working families, we have more of the Treasurer's tired claptrap about what the government can afford. The Howard government and, in particular, the Treasurer have made a central focus of the political rhetoric of running a sound fiscal policy. Unfortunately for the government and the country, the Treasurer's days of doing that are long gone. The reality is that the net impact of policy decisions taken by this government, measured in the calendar year in which they were made, over the current budget and three forward estimate years, now stands at $65.4 billion. How could the government have arrived at a situation where it has made policy decisions with a net impact of $65.4 billion but it cannot return to taxpayers the full value of bracket creep, low- and middle-income Australian families cannot find a doctor who will bulk-bill and the government cannot deliver reform of the tax system to make it internationally competitive? I seek leave to incorporate in *Hansard* a table which shows the net impact of policy decisions on the budget bottom line each year since 1996.

Leave granted.

The table read as follows—

Net Impact of Policy Decisions on Budget Bottom Line

	$m
1996199719981999200020012002 2003Total	24,061-296-20,649-11,691-7,384-25,630-5,313-18,570-65,472

Source: Budget Paper No. 1 1996-2003 and Mid-Year Economic and Fiscal Outlook 1996-2002.

Mr COX—That lack of financial control results from one thing: short-term politics dominating decision making. After eight years, we can see the impact of that pattern of spending in the misplaced priorities of public expenditure. The government has focused on only two things in determining its fiscal policy: achieving a surplus on the underlying cash balance and reducing net government debt. It has achieved the latter largely by selling assets. I seek leave to incorporate in *Hansard* a table that shows the contribution of asset sales to reducing net government debt.

Leave granted.

The table read as follows—

ASSET SALES AS A PROPORTION OF REDUCTION IN COMMONWEALTH NET DEBT

30th June 1996 to 30th June 2003

	SALE OF NON-FINANCIAL ASSETS	SALE OF FINANCIAL ASSET	TOTAL ASSETSSALES	NET GOVERNMENT DEBT
	$m	$m	$m	$m

95/9696/9797/9898/99	[illegible]	[illegible]	[illegible]-626[illegible]4,275,83196,28182,93570,40257,56042 8,378 11,608 8,717 227 1,024 55,394	
Source: ABS Government Financial Estimates 1999/2000 and 2000/01 (Cat 5501.0) Budget Paper No.12003-04				

Mr COX—Since the Howard government came to office, and by the end of this financial year—that is, 2002-03—debt will have been reduced by $63.4 billion. However, $55.3 billion of that has been achieved using asset sales, both financial, like Telstra, and non-financial, like the Department of Foreign Affairs building. That debt reduction is much less impressive when you take into account the means of achieving it.

The government's targeting of the surplus has not resulted in containment of expenditure, because it has been prepared to increase taxes to maintain those surpluses. This government has increased taxes in three ways. Firstly, it has introduced the GST. Secondly, it has not handed back the full value of bracket creep and so the general level of personal income tax is being allowed to increase notwithstanding the tax mix switch, which was one of the primary objectives of the Howard government's GST. If anyone thinks that the GST resulted in substantial long-term income tax reform, they should have a careful read of David Stevens paper entitled `Australian Taxation in an International Context', which concluded:

> The abolition of the Wholesale Sales Tax (WST), the low GST rate, and the numerous exemptions has resulted in there not being a significant switch from the taxation of income to the taxation of consumption under the *New Tax System.*

The third way in which the government has increased taxation has been through a series of special levies and taxes such as the milk levy and the Ansett ticket tax, which the government is still continuing long after its original purpose has been obviated.

Total tax as a proportion of GDP has grown as a result of the government's tax policies from 23.1 per cent of GDP in 1996, when the government took office, to 25.3 per cent of GDP in the 2002-03 financial year. The government now taxes 25.3 per cent of GDP to pay for Commonwealth own purpose outlays and payments to the states that used to take 23.1 per cent of GDP under the Labor government. If you deduct payments to the states from the 23.1 per cent to produce a comparable figure with the Treasurer's budget papers, it would be well below 20 per cent. I seek leave to incorporate in *Hansard* a table showing total tax as a proportion of GDP.

Leave granted.

The table read as follows—

THE GST AND TOTAL TAX

	% GDP WITHOUT GST	% GDP GST	% GDP TOTAL TAX
1995-961996-971997-98	[illegible]	[illegible]3.73.74	2323.523.323.82425.524.425

Budget Paper No. 1 2002-03, 2003-04

Budget Paper No. 3 2003-04

Mr COX—Bizarrely, the Treasurer defies IMF and ABS conventions and insists on ignoring the GST, because he wants to suggest that the Commonwealth tax is now only 21 per cent of GDP. Perhaps this is because he wants to pretend that he has turned the clock back to where taxes were at the end of the Whitlam government when total tax was 21.3 per cent of GDP. Unlike now, that was a time when the federal government was really throwing money at the states, particularly my state, and Commonwealth taxes to do that and pay for Commonwealth owned purpose outlays, which had grown significantly, were then still only 21.3 per cent of GDP. There is something seriously wrong when the Treasurer of the Commonwealth of Australia ignores the Auditor-General's advice as to how budget figures are presented. This may explain why the government is reluctant to have the final budget outcome audited, because if the government persisted in ignoring the GST revenues and expenditure of an equivalent amount of money to the states those accounts would have to be qualified. There is little point in

this Treasurer lecturing the business community on corporate governance when he does not listen to his own Auditor-General on an essential matter of the presentation of the Commonwealth public accounts and where he is hiding more than $30 billion of tax and expenditure.

Much has been made of the inadequacy of the Treasurer's $4 tax cut. The Minister for Family and Community Services, Senator Vanstone, in her own eloquent way, spelt out the inadequacy of the tax cut when she said:

> $5, hell, what will it buy you? A sandwich and milkshake, if you're lucky.

But the real issue is how does a $2.4 billion tax cut stack up against bracket creep? It does not stack up against bracket creep. If it did, the tax cuts would be $900 million larger. That would cut the surplus to $1.3 billion in 2003-04, still a significant surplus. But the real reason that the Treasurer cannot give back the full proceeds of bracket creep is that if he did, in the two subsequent years 2004-05 and 2005-06, he would be putting the budget into deficit by $550 million dollars and $1.5 billion respectively. I seek leave to incorporate in *Hansard* a table relating Access Economics's estimates of fiscal drag to the tax cuts and another showing what would happen to the surplus if the government handed back all bracket creep.

Leave granted.

The tables read as follows—

Year	Bracket Creep*($ billion)	Tax Cuts($ billion)	Net Bracket Creep ($ billion)
2001-022002-032003-04	2001-022002-032003-04	002.42.652.752.9	1.22.20.91.852.753.7

* Source: Access Economics Budget Monitor

BUDGET BALANCE AND FISCAL DRAG

Year*	BUDGETBalance	ACCESSFiscal Drag	NEWDRAG	ResidualBalance
Fiscal Balance				
2001-022002-032003-04	2001-022002-032003-04	2001-022002-032003-04	1.22.20.91.852.753.7	-5-0.7-0.2-2.95-2.45-0.9
Underlying Cash Balance				
2001-022002-032003-04	2001-022002-032003-04	2001-022002-032003-04	1.22.20.91.852.753.7	-2.21.71.3-0.55-1.551

Source: Budget Paper No.12003-04

Access Economics, Budget Monitor May 2003

Mr COX—In summary, under this government, the net effect of policy decisions by this government on the budget bottom line is a deterioration of $65.4 billion. That new policy has been funded by increasing tax from 23.1 per cent of GDP to 25.3 per cent of GDP. The budget is being kept in surplus by the extra tax collected through bracket creep. An overwhelming majority of debt reduction, $55.3 billion out of $63.4 billion, has been achieved with asset sales.

It is appropriate in the light of this systemic policy failure to draw attention to one of the expense measures in the budget papers under the Department of Finance and Administration. There are two measures: enhanced budget advisory capacity and enhanced budget information system. The additional measure for budget advice will cost taxpayers $9 million this year, $11.8 million next year, $12.1 million the year after and $12.4 million in 2006-07—a total of $45.3 million over four years. The information system measure will cost $5.5 million this year, $6.5 million next year, $4.3 million the year after and $2.9 million in 2006-07—a total of $19.2 million over four years. The total cost of these measures is $64.5 million. The fact that these measures are in the budget papers is a major admission of policy failure by the Department of Finance and Administration. They are a manifestation of abject failure by a once powerful and professional Commonwealth department. The fact that the money has had to be provided is an admission that the Department of Finance and Administration has huge problems. Those problems are the result of a failed experiment in public administration by the previous Secretary of the Department of Finance, Dr Peter Boxall. Dr Boxall's tenure at Finance must now be judged a failure with the government having to introduce specific budget measures to put the department back together again after he effectively destroyed its advising capacity on budget policy.

Perhaps based on his experience at the IMF, where international officials impose severe corrective policy on bankrupt countries and do not have to stick around long enough to observe the consequences of their advice, Dr Boxall apparently decided to get rid of any officer in his new department who did not think exactly like he did. Within a couple of years, he had jettisoned a department's corporate memory that had taken decades to build. He was keen to devolve many core finance department functions back to organisations that did not have the skills or resources to manage them. The results have been disastrous.

He also had a very narrow view of the core role of the Commonwealth government. He turned Canberra from a public sector town to a private sector town as he downsized and outsourced almost without regard to the concept of value for money. But the thing that he did which will stand as his lasting monument is the sale and lease back of Commonwealth buildings, most dramatically the building housing the Department of Foreign Affairs and Trade. The Motor Trades Association of Australia superannuation fund is the chief beneficiary of this piece of policy lunacy. The MTAA CEO, Michael Delaney, alone amongst bidders, recognised what a great deal Peter Boxall was offering the successful purchaser. Very long leases, higher rents and guaranteed rent escalation clauses on property that would never be vacant amounted to an almost riskless investment with a high rate of return. It pumped up the prices received for the assets and so allowed the government to pay off more debt, but it did so at an astronomical ongoing expense to the taxpayer.

Mr Pyne—John Curtin House.

Mr COX—Centenary House was a casebook study in how not to do it. That lease was instigated by the then Auditor-General, it was negotiated at arm's length and it proved somewhat expensive. There was a royal commission into it. The royal commission found that there was no impropriety in that arrangement, but it certainly trawled over all the problems that pertained to the Commonwealth taking out long leases with private property owners to pay for accommodation that would always be leased by the Commonwealth. The Howard government should have learnt from that experience. It certainly observed that one closely, and it should not have replicated it on a grand scale with all other Commonwealth buildings.

The sale of these Commonwealth buildings was done by Dr Boxall on the ideological pretext that the government was not in the business of owning buildings, apparently regardless of the concept of value for money. I was so horrified by it that I asked the Auditor-General to look at it, and his report has become a textbook case study in how a government should not do business.

At a recent seminar on the future of the bond market, Keith Chessell from Access Economics characterised the debacle as a sweetheart deal between the good fairy from the finance department and the property market. I have not met too many people who would liken Peter Boxall to the good fairy, but I would say that he was off with the fairies with some of his policy advice.

The important point is that the Howard government has explicitly recognised that it has a serious problem down by the rose garden, and it is having to spend serious money to fix it—more than $65 billion. The problems are there to see. The net effect of policy decisions by this government on the budget bottom line is $65.4 billion, yet Australian families cannot find a bulk-billing doctor. That new policy, as inappropriate as much of it was, has been funded by increasing tax from 23.1 per cent of GDP to 25.3 per cent of GDP. The budget, to the extent that it is being kept in surplus—and it was not last year—is being kept in surplus by the extra tax collected through bracket creep. An overwhelming majority of the debt reduction that the Treasurer boasts about—$55.3 billion out of $63.4 billion—has been achieved with asset sales.

The most important issue for public expenditure in this budget is Medicare. It is the most important thing that is at stake. This government has decided that it will spend $917 million on a series of policies which will see the end of bulk-billing. It is paying for that new policy with cuts of $918 million to public hospitals. The outcome is going to be disastrous.

The member for Perth has just entered the chamber. The member for Perth and I visited a bulk-billing practice on Doctors Road at Morphett Vale in my electorate. We sat down with five of the doctors, and the member for Perth, who is the shadow minister for health, went through Labor's policy, which is to spend more than double the amount that the government is planning to spend and in a better designed way. The doctors at this particular surgery, which is quite an efficient surgery—it has a practice nurse, two sites and seven doctors; I will not name it—had been waiting for the Howard government's policy before deciding whether they would continue to bulk-bill. If they bulk-bill, they will get $1 per service from the Howard government's policy. They said that they would not be able to afford to continue to bulk-bill.

Across the other side of Doctors Road is another surgery. This one is not a large practice—it has one site in the shopping centre—and the doctor and his wife, who is the practice manager, had stuck to bulk-billing until November last year. They had found three doctors who, in their retirement years, were prepared to work for them for the going rate, which was about $70 or $80 an hour. The only reason that this doctor and his wife were able to afford to maintain bulk-billing until last November was that they were paying themselves exactly half of what they were paying the people who worked for them. Reluctantly, they gave up bulk-billing last November and began to charge a copayment. They are charging pensioners $5. That is about what the Labor Party's policy would provide to a practice in that sort of area.

So if the Labor Party's policy were implemented, one of them would be able to keep bulk-billing and the other would be able to return to bulk-billing. With the Liberal government's policy, neither of those practices will be bulk-billing. They are both in an area where people are on very low incomes. As gaps rise, those people are going to miss out on health care. They will have to sit and wait in long queues at the local hospitals' accident and emergency departments. On many occasions, there are going to be people in those areas who will miss out on getting any medical services at all. That is the critical issue in this budget. After $65.4 billion of new policy, the Howard government is unable to deliver a situation where Australian families on low or middle incomes are able to find a bulk-billing doctor. *(Time expired)*