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PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

Federation Chamber

BILLS

**Appropriation Bill (No. 1) 2014-2015,
Appropriation Bill (No. 2) 2014-2015,
Appropriation (Parliamentary Departments)
Bill (No. 1) 2014-2015, Appropriation Bill (No. 5)
2013-2014, Appropriation Bill (No. 6) 2013-2014**

Second Reading

SPEECH

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Questioner
Speaker Fletcher, Paul, MP

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Mr FLETCHER (Bradfield—Parliamentary Secretary to the Minister for Communications) (11:00): I am very pleased to rise to speak on the Appropriation Bill (No. 1) 2014-2015 and cognate bills. In the brief time available to me this morning, I want to make three points. Firstly, what we have before the House is an honest budget offering a credible path to surplus. Secondly, we have a budget which deals with the growing debt problem that we have been left as a legacy by the previous Labor government. Thirdly, we have a budget which introduces some strategic measures to deal with the volume of entitlement spending.

Let me turn firstly to the proposition that this is an honest budget offering a credible path back to surplus. That is a bit of a change, because we have had six years of dishonest budgets from the member for Lilley. Who can forget the 2012-13 budget, where he proudly said:

The four years of surpluses I announce tonight are a powerful endorsement of the strength of our economy—

et cetera et cetera. He continued:

This budget delivers a surplus this coming year, on time, as promised, and surpluses each year after that, strengthening over time.

This was, I am sorry to say, only part of his miserable track record of wildly missing his promised outcomes, year after year. In March 2008, the then Treasurer, the member for Lilley, promised a surplus of \$21.7 billion. The final result for 2008-09 was a deficit of \$27.1 billion. For 2010-11, he was up to his old tricks. He promised a deficit of \$40.8 billion. He delivered a deficit that was \$47.8 billion. In 2011-12, he promised a deficit of \$22.6 billion. He delivered a deficit of \$43.7 billion. And in 2013, of course, he promised a surplus of \$1.5 billion and delivered a deficit of \$18.8 billion. When Swanny delivered his budget speech in May 2012, we were coming to the end of the 2011-12 financial year, in which the federal government recorded a deficit of over \$43 billion, yet he was promising, as he stood up at the dispatch box, an implausible turnaround of roughly \$45 billion in just one year. Surely, even as he was delivering his speech, the member for Lilley could not have believed that he was laying out a credible plan, a plan he seriously thought he could deliver on.

By contrast, the 2014-15 budget does lay out a measured and credible path forward. It starts by recognising that we have inherited a legacy of spending dramatically ahead of revenue, with the latest estimates of the 2013-14 outcome being a deficit of around \$50 billion. So that is the starting point that we have inherited from Swanny. This budget, delivered by the Treasurer, the member for North Sydney, lays out a four-year path to steadily reduce the deficit each year so that by 2017-18 it will have fallen to \$2.8 billion. Over that four-year path, the underlying cash deficit is projected to be \$60 billion over those four years, compared to the \$123 billion it would have been had we stayed on the path that we inherited from Labor.

And, of course, the other key reason why this is a credible plan—as opposed to the series of completely implausible projections and plans delivered by the member for Lilley when he was the Treasurer—is that it is being delivered by the very same team, the very same side of politics, which in the Howard government years started out with a deficit of \$6 billion in 1996-97, again inherited from the previous Labor government, turned it around and was soon delivering, year after year, a steady stream of surpluses and, in turn, gradually whittling away Labor's debt. It is a credible budget with a credible plan—a stark contrast to the dishonest fantasies perpetrated by the member for Lilley, year after year, during that grey and dismal time when this country was unfortunate enough to have him as our federal Treasurer.

Let me turn to the second proposition, which is that a core feature of this budget is that it seeks to come to grips with the debt problem that we have inherited from the previous government. The Labor Party left the Abbott government to deal with a huge debt legacy, with a debt projected to rise in gross terms to \$667 billion by 2023-24. By contrast the path which is laid out under this budget will see gross debt in 2023-24 dramatically lower at \$389 billion. But it is not just the numbers that matter here, it is the underlying attitude of the two sides of politics to

the ballooning government debt which was Labor's plan. There is a fundamentally different philosophy on this side of the House about the importance of getting debt under control. By contrast, Labor's attitude is: 'Let's just keep putting it all on the credit card; we will worry about it later.' 'And why should we worry,' they say, 'because total debt to GDP ratio is low compared to many OECD countries.'

The opposition leader, in his budget reply speech, claimed that 'Australia is fundamentally strong and so is the legacy Labor left behind, with net debt peaking at just one-seventh of the level of the major advanced economies'. And doesn't that word 'just' do such a lot of work in that particular quote! Let me highlight three reasons why Labor's 'why worry?' approach is misguided. I argue that government debt matters very much, and that is why this Abbott-Hockey budget is taking the right approach. The first point of course is that, once you start to build debt, it gets harder and harder to turn it around. You know you should do something about it, you know you should tackle it, but you keep putting it off, you keep having deficit after deficit after deficit, and the debt keeps getting bigger and bigger and bigger.

The Rudd-Gillard-Rudd government saw precisely this growing loss of discipline. Let us compare what the Rudd-Gillard-Rudd government delivered and budgeted for over the period 2012-18 and what was achieved or planned for in a range of other countries. We saw government funding increase in real terms by 16 per cent, much higher than most comparable countries. For example, New Zealand had a seven per cent increase over that time, Sweden had a 10 per cent increase and Japan had a mere three per cent increase, yet here, under Labor's plans, we were merrily increasing spending by 16 per cent. Equally importantly, over that same period, we saw the Labor government planning for Australia's net debt as a percentage of gross domestic product to increase by some eight percentage points; it was going to get worse by some eight percentage points. That is a considerably worse performance than the US, Canada and Sweden and much worse than a wide range of countries where, over the same period, the ratio of net debt to GDP actually fell, actually improved. Of course, the countries in that category included Greece, Korea, Germany, Belgium and Austria.

The second reason why debt is fundamentally important, why Labor's 'why worry?' approach is so misguided, is that, as debt grows, the burden of serving it grows each year. This year our total interest-bearing liabilities are estimated to be \$358 billion and the total interest expenditure for 2013-14 is going to be \$14.4 billion. That is \$14.4 billion that cannot be used on schools, roads, hospitals and all the other essential spending requirements faced by government. Let us remember that this money has to be repaid by individual taxpayers. According to the 2011-12 taxation statistics, the most recent ones published, there were 9.7 million individual taxpayers who each paid an average of \$16,270 in tax. If we project that forward to 2013-14, we can estimate that covering that interest bill of \$14.4 billion would use up all of the tax paid by 917,000 taxpayers. In other words, almost a million taxpayers are paying tax for no other purpose but to cover the interest payments on the debt that Labor has racked up. The other reason why debt is so important is that as your debt rises you are more vulnerable to a rise in interest rates. We are in a historically low interest rate period now but that will not last; these things never do. If rather than a 3.7 per cent interest rate or funding cost assumed in the current budget the rate had been five per cent then the interest bill for 2013-14 would have been nearly \$20 billion.

The third reason why it is so important to get debt under control is that if you do not you risk getting yourself into a hole you simply cannot get out of. A magisterial piece of economic research was the book *This Time is Different: Eight Centuries of Financial Folly* by Reinhart and Rogoff, released a year or two ago. They had this to say:

... excessive debt accumulation ... often poses greater systemic risks than it seems during a boom.

They went on to say:

... again and again countries take on excessive debt in good times and without enough awareness of the risks that will follow when the inevitable recession hits. Many players in the global financial system often dig a debt hole far larger than they can reasonably expect to escape from.

If only Swanny had read that book before he did some of the things he did.

You need only look at the difficulties faced by nations like Greece and Ireland when the financial markets insisted on austerity measures to get their ballooning debt under control. This budget is not an austerity budget, despite the overblown and hysterical claims from the Labor Party, but the best way to avoid being forced into drastic cuts in public expenditure is to keep your debt under control. I want to quote from an article in the UK *Independent*, which had this to say about the Greek government's austerity measures:

Greece's public hospital budget was cut by 25 per cent between 2009 and 2011 and public spending on pharmaceuticals has more than halved. ... Rising unemployment in a country where health insurance is linked to work status has led to an estimated 800,000 people lacking either state welfare or access to health services and in some areas international humanitarian organisations ... have stepped in to provide health care. ...

We never want to be in such a position in this country, and that is why we are taking the actions we are taking in this budget.

That brings me to the third major point I want to highlight, some of the strategic measures being taken to deal with entitlement spending and ensure that that does not get out of control. Take, for example, the age pension, which constitutes almost 10 per cent of total Commonwealth expenditure. For many years the entitlement age for age pensions was 65, an age originally set by the German Chancellor Bismarck over 100 years ago at a time when only a very small percentage of people lived to that age. That became increasingly unviable as more and more people, happily, survived longer and longer. That is why a previous government took the wise decision to increase the pension age to 67. We have built on that reform direction in this budget by gradually increasing the age pension age to 70 by 2035 and by linking pension indexation to CPI movements from September 2017.

There is a range of other measures we are taking. For example, all payment eligibility thresholds will be maintained for three years from 1 July 2014 for non-pension payments and from 1 July 2015 for private health insurance rebate. There will also be a three-year temporary budget repair levy payable by individuals with a taxable income above \$180,000 at a rate of two per cent. We would love to be able to say to the Australian people: 'We don't need to do any of this. We can just keep spending ever larger amounts of money in major program areas such as age pension without considering the long-term impact.' But the frank reality is that we just cannot keep going as we were. We need to take some strategic decisions to get our deficit and debt under control and this is vital to protect the capacity to continue to deliver very substantial spending on health, education and welfare and all the other incidents of a prosperous and civilised society. Bear in mind, despite the misleading claims from Labor, we are continuing to spend in these areas. In health, spending will rise from \$64.5 billion this year to \$74.9 billion by 2017-18.

Let me conclude by observing that this is a budget in which the coalition are demonstrating a responsible and determined attitude to manage our resources so that government can continue to support all who need its support but in a way so that we are not continuing down an unsustainable path of ever rising deficit and debt and an ever weaker capacity to sustain the social spending which government delivers. From Labor, we hear mere opportunistic political bleating. On this side, we are taking the responsible decisions that must be taken to secure our nation's future.