YOUNG LIBERAL ANNUAL CONFERENCE

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BALANCED BUDGETS AS A YOUTH POLICY

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We should aim to maximise personal freedom in a society that guarantees safety from enemies (within and without) and accords opportunity to all.

People should have the chance to improve themselves and utilise their talents. Some will take their opportunity and others won't. We can't equalise outcomes. Nor should we try to do so. But we should try to give every person an opportunity.

The opportunities for young Australians will depend on how we manage our economy. In a prosperous society they will have more choices, better choices, more opportunity to succeed and realise their potential.

The young will inherit our efforts. If we make good decisions and manage wisely they will benefit. If we don't they will live with the consequences of our failure.

Good economic policy is a pro-youth policy.

Generational Fairness

The young benefit from the infrastructure we build today if it is well planned and lasting. They benefit from the measures we put in place to protect the environment. They will inherit public assets. And they will inherit public debt.

This is a crucial point and once you have grasped it you will understand the concept of generational equity. A generation bequeaths both its assets and its debts.

One generation can sacrifice for the benefit of another. The Second World War generation put up with loss, death and privation to secure national sovereignty and self-determination.

On the other hand a generation can indulge at the expense of another. One of the easiest ways to do that is through deficit financing.

Anyone can spend money they don't have if someone is prepared to lend it to them. When Governments do that the cost of the borrowing becomes a charge against future taxes. Future taxpayers have just that little bit less of their own taxes to pay for services because a component must go off to service the cost of previous consumption. Maybe they will decide to send the cost on to the next generation and add in a little bit of their own overconsumption as well. Soon the debt and debt-servicing cost begins to accumulate. Soon future generations have less money to spend on their own needs because they are paying the cost of previous decisions. Their flexibility and their options begin to narrow.

Personal debts die with the person who incurred them. Governments do not die, and their debts continue down to successive generations.

One of the things I am proud of in my time in Government is that when the public, in its wisdom, voted us out we bequeathed no debt to future generations. Not only had the Government paid its own way, it had cleared the debts of all the Governments that went before it. Never had the financial position of Commonwealth Government been stronger.

It was an important time to be strong given the gyrations in the international financial system in 2008.

I doubt we will ever be in a debt-free position again.

Australia's Fiscal Position

The situation today is very similar to the position 20 years ago when I started as Treasurer. Like today we were facing Budget deficits across the Forward Estimates. Spending was running well in excess of revenue

Budget Balance to GDP (Cash)

	Receipts %	Payments %	Deficit %
1996	23.5	25.6	2.1
2016	23.9	25.9	2.3

As is well known, in 1996 we decided to balance the Budget over a two year time frame by cutting expenditure. It was not our policy to balance the Budget by introducing a GST or increasing tax rates.

We did not decide to increase revenue to match spending. We decided to cut spending to match revenue. Over the next two years expenditure was cut to 23.9% of GDP, a reduction of 1.7% of GDP and the Budget was balanced.

At the time our critics said this would lead to recession. There were grounds for fearing unemployment then because the rate was then 8.4 % compared to 5.8 % today. In the short term unemployment got worse but as our strategy began to work we made major strides in reducing it.

In those days interest rates were much higher. We said that reducing the Budget deficit would allow more space to reduce interest rates. This proved true. One of the benefits of the policy was that lower interest rates undoubtedly eased pressure on family budgets and help stimulate the economy.

Not only was the Government's deficit position similar 20 years ago but so too was the debt position.

Debt to GDP

	Net Debt %	Net Interest Payments %
1996	18.1	1.7
2016	16.9	0.7

In 1996 debt was a little higher but the cost of that debt was significantly higher.

Sustained Budget surpluses allowed us to pay off all that debt in net terms and reduce the cost of debt servicing. By 2006 it was zero. That's a saving of 1.7% of GDP compared to where we started.

Of course we had the benefit of a privatisation program with Telstra. But today the government has a much better asset than that- the \$120 billion Future Fund. For complicated accounting reasons the value of the Fund is not fully counted against net debt. If it were, the debt position would be commensurately better.

Setting a Goal

Today I hear many people say that the Budget can't be fixed or can't be fixed inside a decade (which in practical terms means never). My point is there is historical precedent for fixing a Budget in this position. But if we are to do it we must clearly set out that goal.

The best time to get on with Budget repair is in a Government's first budget. From then on the public service and interested lobbies begin to wear down even the most enthusiastic Ministers.

Unfortunately the 2014 Budget failed. Some loose language in opposition opened up a political attack that it represented a breach of election commitments. More fatal was the Government's failure to make the case for its Budget decisions beforehand. When it all went wrong afterwards it largely abandoned the case.

I hope we do not conclude from this experience that the Australian public no longer has an appetite for balanced Budgets.

Nor call off our efforts to get there.

Some say a Government will never get there with a hostile Senate. In 1996 the Government did not have a Senate majority. We got no co-operation from the Opposition. My abiding memory of that 1996 Budget was the rampage when demonstrators from the Union rally smashed through the front doors of Parliament House to protest before it was even delivered!

Making the Case for Budget Repair

If we are to get the Budget back to balance it will be important to carefully explain the reason why it needs to be done. It is that we owe it to future generations.

This was the basis of the case in 1996:

"Our predecessors had Australia on a path of deficit and debt to the next century.

Make no mistake, this path would only make future choices harder, future possibilities bleaker and rob Australians of the future opportunities they deserve.

...we will take responsibility to fix it."

A reduction in interest rates is not a major selling point today given that interest rates are already at record lows.

But the Government can and should emphasise the strengthening of the Government's financial position will give us additional protection against financial instability. We are in a period of high market volatility. Just as the debt-free, AAA rated, position was important to Australia going into 2008, so too will be the financial position which we experience the next financial crisis. And there will be one. There are always financial crises.

My view is that Senate "Independents" who decide the fate of contested legislation don't lead public opinion. They just follow it. Winning the argument with the public puts pressure on them to follow.

But to win that argument it is necessary to show conviction and to explain the case- not just on Budget night but every day leading up to it and every day after it. It is necessary to explain what benefits will flow from it and what ills will befall us if we continue to limp along as we are.

Next year will be the ninth straight year of deficit.

Getting the Budget back to balance would put the Government in a stronger position on tax reform. While the Budget is in deep deficit there will always be the suspicion that tax changes have more to do with grabbing money than improving incentive and efficiency.

Tax changes will not solve the Budget problem. The Budget problem is that spending close to 26% of GDP, is still at the 'temporary' and 'emergency' level that Rudd introduced in 2008. If we could get back to where it was before then (and no-one was starving in the street at those levels) the Budget would now be in Surplus.

To do a major turnaround on the Budget, the Government must talk and act with one consistent voice. I cannot understand why the previous Government warned about the danger of escalating debt and then abolished the debt limit – the one law that could stop it. It did this with the cooperation of the Greens. I can understand why the Greens would want to abolish the debt limit but not the Coalition.

It certainly mixed the message.

It is time we reached out to the young people and explained how these issues affect them.

The big government spenders and their high tax cheer squad are not thinking about the future of young Australians. They are hocking them into debt.

It isn't fair. It is diminishing their opportunities and their prospects.

Young Australians should be alert. They should be and alarmed.