



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

PROOF

APPROPRIATION BILL (NO. 1) 2009-2010

APPROPRIATION BILL (NO. 2) 2009-2010

**APPROPRIATION (PARLIAMENTARY
DEPARTMENTS) BILL (NO. 1) 2009-2010**

Second Reading

SPEECH

Tuesday, 26 May 2009

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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Date Tuesday, 26 May 2009
Page 54
Questioner
Speaker Costello, Peter, MP

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Mr COSTELLO (Higgins) (7.49 pm)—It is worth remembering that Labor's first budget, the budget that was brought down 12 months ago, in May 2008, forecast an economy which would grow at around 2¾ per cent. When Mr Swan, the Treasurer, brought down that first Labor budget some 12 months ago he said in his speech:

We are budgeting for a surplus of \$21.7 billion ... 1.8 per cent of GDP, the largest budget surplus as a share of GDP in nearly a decade.

He went on to claim that it was a 'surplus built on substantial savings' and, further, a 'surplus built on disciplined spending'. When he brought down the first Labor budget in May 2008 what Mr Swan was saying was that he was no girly-man; he was going to produce a huge budget surplus—none of these wussy coalition budget surpluses of 1½, 1.3 or 1.4 per cent. He was going to produce a budget surplus of 1.8 per cent of GDP. Now, of course, none of what he forecast came to fruition—none of it. As I said at the time, the 2008 budget is best filed in the fiction section of the Parliamentary Library because the forecast could not be held from May 2008 to May 2009. And when he came back here in May 2009 he adopted a somewhat different approach. He had had no trouble telling us about the bottom line in May 2008, but in May 2009 he was strangely silent about what the bottom line of the budget would be.

A budget is a statement of how you are going to manage expenditures and revenues over the course of the year. The most basic, fundamental thing about a budget is what you are budgeting for. It makes no sense to say: 'I'm budgeting for an undisclosed bottom line. I can't tell you whether I'm budgeting for surplus or deficit. I can't tell you how much it's going to be.' The crucial thing about a budget, particularly a Commonwealth budget, is to actually inform the nation what the budget is. Is it for a surplus? Is it for a deficit? Is it for X billion dollars or is it for Y billion dollars? We had the extraordinary situation on budget night this year where the one critical fact that governs the parameters of any federal budget was actually omitted from the speech because apparently, we are told, the spin merchants of the Labor Party had said to the Treasurer, 'You cannot utter those words in the parliament; it will go on film and it could be used against you.' Chalk one up for the spin meisters; chalk

one down for accountability and transparency in public debate in this country.

The \$22 billion surplus which was forecast in May 2008 came in as a \$32 billion deficit. I want to make this point: that was driven by policy decisions. Do not let anybody claim that the failure of the government to deliver its forecast in 2008-09 was driven by revenue downturns. As this year's budget papers make entirely clear in table 5 of budget statement No. 3, it was policy measures, new spending of \$33.3 billion, that turned that forecast surplus into a deficit. In addition to that there was a parameter change. But it was not the parameter change that drove the budget into deficit, it was the new spending. In October, there was the spending on the Economic Security Strategy. In December, there was the spending on the nation-building strategy. In February, there was the spending on the Nation Building and Jobs Plan. It was policy measures that drove the projected surplus of 2008-09 into deficit. As table 5 of budget statement No. 3 shows, again in this fiscal year \$32 billion of new spending, of new policy measures, will drive the budget into deficit. In addition to that there are parameter changes of \$45 billion which will drive it into a deep deficit. Discretionary policy measures drove the budget into deficit in 2008-09, as they will drive the budget into deficit in 2009-10.

Why do I emphasise the failed forecasts of last year's budget? Only to make this point: if the government's budget forecasts between May 2008 and May 2009 were interrupted by new discretionary policy spending, we should take with a grain of salt the forecasts and projections which it now wants us to believe in this document out over the next seven, eight and in some cases 13 years. Because this government would have you believe that, even though it was wildly inaccurate between May 2008 and May 2009 on growth forecasts, and indeed on policy measures, you can believe the projections that it gives for six years of continuous growth to bring the budget back into balance in 2015-2016, and, what is more, you can believe the projections for another seven years of continuous growth after that to retire in 2021-22 the debt they are building up.

Let us just consider this for a moment. The government would have you believe that for seven years, from now until 2015-16, we will have: a

contraction of half a per cent this year, followed by 2¼ per cent growth, 4½ per cent growth, 4½ per cent growth, four per cent growth and four per cent growth out to 2015-16, which will bring the budget back into balance. The government is very confident, apparently, in growth figures between now and 2015-2016. It then says there will be above-trend growth after that, and then returning, once we have got to full employment of five per cent—interestingly defined as five per cent in the budget papers—to continuous growth to 2021-22. That will be in 2021-22, as we heard from the Prime Minister in question time today.

And what will be the great achievement by 2021-22? We will be back where we were in 2006. The Prime Minister says that he has a plan to get us back, by 2021-22, to where we were in 2006, which is debt free. Maybe this is what Labor meant by its education revolution. Think of those tiny tots who started school this year. After they have done seven years of primary education, the budget will just be getting back to balance. After they have finished all of their primary education and all of their secondary education, according to the most optimistic forecast in this budget, just as those tiny tots who started school this year are coming out of the education system after 13 years of education in 2021-22, we will be coming out of temporary debt. I wonder if those kids who are going into 13 years of education regard it as a temporary education. I wonder if those kids who are going into primary education regard seven years of primary education as a temporary period. That is how this government regards it. It regards it as a temporary deficit, just as it regards 13 years of debt as temporary debt. That is even on the most optimistic of assumptions—that is, two years of growth at 4½ per cent followed by four years of four per cent followed by trend growth, with no interruption over that period. Let me say this to the House: it just will not happen.

The Treasurer said today in question time that he has put a ceiling on the growth of outlays. Has he? What has he actually done? Has he legislated a ceiling on the growth of outlays? No. What he means by saying that he has put a ceiling on the growth of outlays is, in order to make his figures add up, he intends that there will be no more than two per cent growth in outlays over all of those years, just as he intended in May 2008 to produce a budget surplus. And there is no reason to believe this intention will come into reality anymore than his intentions of last year came into reality in the past 12 months. ‘That fixed that,’ he said. ‘I’ve put a cap on outlays; two per cent real growth every year.’ If only it were that easy; if only you just had to say it for the word to become a deed. This is a Treasurer whose one and only budget had an increase of outlays of 13½ per cent and who now says, ‘Over a period of seven years I’ll restrict it to two per cent per annum. And

I’ll restrict that through the election in 2010 and 2013. And then, in order to pay off debt, we’ll go through the election of 2016 and 2019 and we’ll be back where we started in 2021-22.’

Of course, all of the assumptions in relation to that assume that there will be no tax cuts, that inflation will take off again as the economy grows and the revenues will come back through bracket creep. Before the 2007 election, I recall the now Prime Minister saying, when he refused to follow the full coalition tax plan, which was to cut the top marginal tax rate from 45 to 43 to 42 in this term, that in his next term, if he were re-elected, he would be looking at bringing the top marginal tax rate down to 40 per cent. But of course there is no capacity to do that in these budget papers. These budget papers assume getting the budget back into balance without tax cuts and without indexation—bracket creep.

It is sometimes claimed that all of this is the result of some kind of collapse in the terms of trade. Well, the terms of trade are forecast to fall 1¾ per cent this year off the all-time record of 2008, when the Labor Party was in government, and it will take those terms of trade back to 2007 levels. But they will still be substantially higher than they were under the coalition government. There has been no collapse in the terms of trade. In fact, the budget papers themselves say on page 2-30:

Even after this fall, the terms of trade would remain around 45 per cent higher than the average in the decade prior to the commodity boom ...

So it is not as if the terms of trade are going to be at some historical low. They are going back to 2007 levels as a result, higher than what they were when I was Treasurer from the period of 1996 to 2007—much higher, in fact. And this government is blessed, according to these forecasts, by terms of trade which will be much higher than they were during that period.

In fact, this is where the budget story becomes very puzzling indeed. On the one hand we are told this is the greatest downturn since the Great Depression and yet, on the other hand, the budget forecasts a contraction of half a per cent of GDP. In the year to June 1983, in that recession, there was a contraction of 3.4 per cent. In the recession to June 1991, there was a contraction of 1.5 per cent, so the government is in fact forecasting a much milder recession than 1991 or 1983. It is forecasting in this recession that unemployment will rise to around nine per cent compared to 10 per cent in 1982 and 11 per cent in 1991. When the Treasury does its analysis of how we will come out of this recession, it does its analysis comparing the experience of 1982 and 1991, not the Great Depression when unemployment peaked at around 20 per cent. The Treasury is comparing this with 1982 and 1991, and

indeed forecasting that it will be milder than both of those recessions. The only thing that will be greater coming out of this recession is the budget deficit, because in neither of those recessions did the budget deficit ever blow out to five per cent of GDP. So, on the indicators of growth and employment, this will be a milder downturn than 1982 and 1991, and bear in mind we have had many recessions over the last 50 years, but the budget deficit will be of a greater dimension. Indeed, the debt build-up will be of a greater dimension. From trough to peak, debt will build up about 18 per cent of GDP compared to the Keating recession where, from trough to peak, it built up about 14 per cent of GDP.

And when the government says, incidentally, that Australia will have a debt to GDP ratio that is far better than those of comparable countries around the world, it is not because of anything this government has done. This government is building debt to GDP up by about 18 per cent of GDP. It is because it started from a net asset position. It is because the coalition paid off all debt and established the Future Fund and had a negative net debt of about four per cent of GDP. Countries like the US and the UK started with debt to GDP ratios of about 50 per cent. While the coalition was delivering surplus budgets through the late 1990s and early 2000s, in the UK and the US they were running up deficits. While we were paying back debt, they were building debt up. The strength of the Australian position comes not from anything the Rudd government has done, but from its strong starting point—and it would be an honest thing for Mr Rudd to actually acknowledge that. If we had gone into this downturn with a debt to GDP ratio of 50 or 60 per cent, we would have built it to 80 too. But we went in with a negative net debt and asset position because we had sat here and retired debt and built an asset position without the help of the Labor Party through those periods when comparable countries, such as the US and the UK, were running deficits and building up their debt position.

Undoubtedly there has been an international downturn, but the government's response here in Australia reminds me of the statement of Rahm Emanuel, Chief of Staff to President Obama, who said that you never want a serious crisis to go to waste. This government has not let this crisis go to waste—dusting off spending proposals which we could not afford when we had the money and introducing them now that we do not. These are spending proposals like giving out cheques, as the government did before Christmas; spending proposals such as insulating houses, a spending measure which was rolled up to me which I did not believe we could afford when we had the money, but the government now believes we can afford it now that we do not have the money. It is funding projects which it hopes

will boost its election prospects. Mr Deputy Speaker, you would have heard in question time the Prime Minister, equipped with graphs and pictures, talking about projects he is funding with borrowed money in order to try to buy electoral appeal.

This is the biggest increase in outlays that this country has seen since Gough Whitlam. Whitlam increased outlays by 15.7 per cent in 1975-76 and Rudd increased them by 13½ per cent in 2008-09. But I will say this for Whitlam: Whitlam at least did not flood spending out into the community from borrowed money. Under Whitlam we had no net debt. The difference between Rudd and Whitlam is that Rudd is borrowing the money that he is flooding out into the community—much more Peron than Whitlam, this approach, to borrow money and flood it out into the community in an effort to try and buy votes. Let us be honest about this. Under the cover of the global financial crisis, a whole host of policies were advanced for political gain. These debts will be with us for 20 years at least—maybe forever. The Australian public will pay for this recklessness.