

From: Des Moore [mailto:ipe_2@bigpond.com]

Sent: Friday, 22 January 2016 5:10 PM

To: Moore, Des

Subject: Budget Policy Waffles

Government of waffle, not strategy

The government has no idea how to confront rapidly rising spending. The only person in it who could has now gone

John Stone, AFR 21 Jan, 2016

The Turnbull government was recently described as “a big spending, big taxing government with no real intention to pare back the growth of government spending, let alone cut it”. Spot on!

Last September, Malcolm Turnbull made his pitch to displace Tony Abbott because Abbott had “not been successful in providing the economic leadership our nation needs”. “We need”, he said, “a different style of leadership” – one that “explains... the course of action we should take”. Thus, “we need advocacy, not slogans”.

Where is that new advocacy? Anyone heard Turnbull calling for cutting the wasteful government spending he now presides over? Four months since he became PM, what advocacy have we had explaining “the course of action we should take”? Instead of those slogans he scornfully dismissed, we have had another three-word slogan (“work, save, invest”) and a blizzard of buzzwords (“agile”, “nimble”, “innovative”) endlessly repeated.

These questions reflect my reading, over the holiday period, the Mid-Year Economic and Fiscal Outlook 2015-16 document, issued by the Treasurer and the Minister for Finance on 15 December. It is a sad document; but rather than its depressing figures, which have already received press criticism, I shall consider what it describes (pp.18-27) as the government’s two budgetary “strategies”: its medium-term fiscal strategy, and its budget repair strategy. It is hard to choose the more meaningless.

The medium-term fiscal strategy is “to achieve budget surpluses, on average, over the course of the economic cycle”. Think about that. What does the “economic cycle” mean for an economy now in its 24th year of economic growth? If this “strategy” had any meaning, we should have been recording budget surpluses over most of that period so that, “on average”, they might (more than) offset the deficits to be expected when “the economic cycle” turns down. That is more or less what the Howard government did over its time in office; but since 2008-09 we have seen nothing but deficits.

The MYEFO figuring extends those deficits to 2019-20; and since no rational person believes the medium-term fiscal “projections” anyway, almost certainly further. Little wonder that, in its initial report (February 2014), the National Commission of Audit noted “in recent years, the strategy was discarded”. So we are left with Scott Morrison’s mounting debt legacy.

The medium-term fiscal strategy is “underpinned by ...three policy elements”. The first is merely waffle and the third is little better. The second speaks of “maintaining strong fiscal discipline by controlling expenditure ...with the payments-to-GDP ratio falling”; but since 2012-13 (Labor’s last year in office), the payments-to-GDP ratio has risen steadily, from 24.1 per cent to an estimated 25.9 per cent this year. Even that figure contains “savings” that assume the Senate passes measures it will almost certainly continue to reject.

The “budget repair strategy” says “new spending measures will be more than offset by reductions in spending elsewhere within the budget”. Yet Table 3.6 shows the net impact of new policy decisions since the 2015-16 budget worsens the underlying cash balance both this year and next. True, “projected” improvements in the two out-years purport to yield net savings of \$1.9 billion over the four-year forward estimates in total. Wow! A whole \$1.9 billion saving (should it eventuate) in payments by that time totaling \$483.3 billion! Does this Treasurer expect to be taken seriously?

No wonder Morrison and other such culprits are said to want an early election

The budget repair strategy (sic) also says “the overall impact of shifts in receipts and payments due to changes in the economy” (i.e., the effect of parameter and other variations) “will be banked as an improvement to the budget bottom line if this impact is positive”.

But even accepting that “jam tomorrow” promise, what if that impact is negative? – as it has been this year, and threatens to go on being while we are tossed around by falling commodity markets, a long overdue restoration of more realistic US interest rates, a geo-political oil price war between the Sunnis (Saudi Arabia) and the Shia (Iran), and more. Does any of that look like “improvements to the budget bottom line” that can be “banked”?

In truth, our government has lost almost the only person in it who had the backbone to try to confront this mess. No wonder Morrison and other such culprits are said to want an early election.

John Stone is a former Secretary to the Treasury (1979-84) and former leader of the National Party in the Senate (1987-90).

From: John Stone [mailto:j_o_stone@bigpond.com]
Sent: Thursday, 21 January 2016 10:05 AM
To: Des Moore
Subject: Re: Bob Carter

Dear Des,

Thanks. Yes, I have seen your earlier message, including what I thought was a very good tribute to Bob. Of course, we always think such tributes (hastily prepared as they usually are) "inadequate", but I don't think anyone but the author will think so. So, well done!

As you rightly say, it will be interesting to see if the media even mention his death. Bastards!

Btw, I can't remember whether you still take the *AFR* (I have a feeling you don't). On the latter assumption, I attach an article of mine that appears in that journal

this morning under the headline "Government of waffle, not strategy", and with a "standfirst" that says "The government has no idea how to confront rapidly rising spending. The only person in it who could has now gone". I expect it will draw some irate letters, but since I don't buy the *AFR* (other than on special occasions), I shall remain in blissful ignorance of them.

All the best.

John

P.S. The attached article is the version as filed on Tuesday. They have made a few small editing changes, but nothing of significance has been lost in the process. JOS

On 21/01/16 8:55 AM, Des Moore wrote:

John

Thanks for informing me. I have now sent an inadequate message about Bob's contribution. Several have made their own contribution including Steve McIntyre and Don Aitkin. It will be interesting to see if he gets a mention in the media

Des

From: John Stone [mailto:j_o_stone@bigpond.com]

Sent: Wednesday, 20 January 2016 9:50 AM

To: Des Moore

Subject: Bob Carter

Dear Des,

You will be as sad as we are to learn of Bob Carter's death yesterday, of a heart attack, news of which has just been conveyed to me by a friend of mine in Townsville.

Apart from informing you personally, I thought you might like to use your distribution list to alert the many other people who will be equally sorry to learn of this.

Townsville is too far for us to go to his funeral, but there may be some on your list (Queenslanders?) for whom that is not the case.

Best wishes.

John