

## Parliamentary Budget Office is keeping the bastards honest

David Uren, The Australian, May 18, 2016

Parliamentary Budget Officer Phil Bowen says of his office: 'It has helped to level the playing field ... [and] to say there has been no impact on transparency would be wrong'.

"There's a hole in the opposition's costings!" This has been the triumphant cry of governments going into elections since at least 1987, when treasurer Paul Keating spied that savings in opposition leader John Howard's tax policy had been counted twice.

And in 2004, costing trouble over the Medicare Gold policy — giving free healthcare to the aged — was the final straw that broke Mark Latham's election campaign against John Howard, while Tony Abbott's bid for power after the hung 2010 election was undone when Treasury came up with a figure for Coalition savings that was \$7 billion lower than it had boasted of during the campaign.

In this election, the costings game is again being played, but it no longer delivers guaranteed wins to the government, which is mainly because of the independent body known as the Parliamentary Budget Office. Thus the Coalition gained no lasting advantage in attempting to expose a black hole in Labor's tobacco tax costing, while its attempt to debunk Bill Shorten's plan to cap loans to vocational education and training students backfired. And it found itself on the defensive over the costing for its own plan to cut company tax.

Behind the assured performance of Labor in advancing a sweeping policy agenda this election is the work of the PBO. In its short life, it has given fresh power to opposition parties. The PBO was set up as part of the deal struck by crossbenchers to enable Julia Gillard to form government after the 2010 election resulted in a dead-heat. Modelled on the Congressional Budget Office in the US, it is tasked with providing policy costings on request from parties and parliamentarians, as well as conducting independent research on budget issues.

Unlike the vast Department of Treasury, which answers to the government of the day, the PBO answers to parliament, its independence guaranteed in legislation. It boasts about 50 staff, led by Parliamentary Budget Officer Phil Bowen, previously a senior official in the Department of Finance and a member of the Asian Development Bank board of directors. Many of his recruits have been top analysts in Treasury and the Department of Finance.

The office's influence was first felt in the closing stages of the 2013 election. Labor had asked Treasury and Finance, the departments traditionally tasked with such matters, to cost policies similar to those proposed by the Coalition, which the PBO had costed. One week from the poll, Kevin Rudd held a news conference flanked by treasurer Chris Bowen and finance minister Penny Wong, claiming to have blown a \$10bn hole in Coalition policies. But the claim blew up in their faces, as the heads of Treasury, Finance and the PBO all denied the policies Rudd had costed were the same as the opposition policies assessed by the PBO.

These shifting sands wrong-footed Finance Minister Mathias Cormann when he tried to demolish Labor's claim of a \$6bn saving from capping VET FEE-HELP student loans for the training sector. In response to Coalition questions, a Treasury official had testified before a Senate committee that the plan would carry a small cost to the budget cash balance because less interest from student loans would be received. Senator Cormann declared it was "absolutely beyond doubt" that Labor's proposal would not yield a \$6bn saving. "If anything, it will detract from the underlying cash balance," he said. This claim was promptly contradicted in a media release from Bowen, the Parliamentary Budget Officer, who had signed off Labor's costing. When the budget is in deficit, any loan to students must be funded by additional government borrowing. Labor's proposal to cap loans

would generate its claimed cash saving because of lower public debt interest payments and fewer bad debts, Bowen said. Treasury had failed to count the public debt interest that was incurred.

Bowen sees his office's efforts to clarify the annual cost of HELP tertiary student loans, which it estimates will rise from \$1.7bn to \$11bn over the next decade, as a good example of its contribution to political debate over the budget. "It is a rapidly growing program that is becoming large and over the long term will have a bigger impact on public debt interest payments than the deficits will," Bowen says. "On current projections the budget deficits will reduce but HELP will continue to grow. The PBO projects that by 2025-26 almost half of the total public debt interest payments will be attributable to HELP. We've made it more transparent and that's what we're on about."

But the PBO might not survive, and the interchange over the cost of student loans is a good example of why, says Australian National University's John Wanna. "If the Parliamentary Budget Office is going to be at all effective, it is going to be a thorn in the side of the executive. Anything they come up with that is different to Treasury instantly challenges Treasury's authority and they won't like that," says Professor Wanna. "The only defenders of the PBO are the non-government members, who don't have the numbers in the House. It would be easy for an executive to disband, for example by claiming it was confusing to money markets to have it making different predictions to Treasury."

But after four years, the PBO has become an institution and any government seeking to shut it down would be seen to be escaping accountability, for which it would pay a high political price. Opposition parties love it. Labor treasury spokesman Chris Bowen (no relation to the PBO's Phil) promises to give the PBO the job of preparing the budget economic forecasts, stripping Treasury of one of its core functions. "This will ensure that economic forecasts are undertaken at arm's length from government, giving the public more confidence in the budget process," he said in his budget reply speech.

The PBO's Bowen rejects any suggestion of tension with Treasury. "Relationships are good. We get 99 per cent of what we ask for in terms of data, and we put out a huge number of requests to support the work that we're doing. Other departments and agencies are also responsive. "We don't see that we compete with Treasury — we each have our own distinct but complementary roles."

It is the practice of governments to pack election promises into the budget or economic statement before the election. In the 2010 and 2013 elections, the Labor government put out policies during the election costing a total of \$3bn to \$5bn over four years, all offset by savings. But the task for the opposition is much harder — it has to persuade the voting public that it is an alternative government offering real choice and a full suite of policies. In both 2010 and 2013, the Coalition presented dozens of policies for new spending, savings and tax cuts churning more than \$40bn over the four-year budget period.

It is a pattern repeated in this year's election. The Coalition has its personal and business tax cuts, along with its superannuation concessions for low income earners matched by tougher treatment for superannuation of high earners all prepared in the budget. Labor, by contrast, has already announced tax increases and savings raising over \$100bn over a decade and is preparing to unveil multi-billion dollar spending initiatives through the election campaign. It has promised to release a full tally of its election promises before the poll.

And parties are circumventing the PBO legislation, which demands that once an election is called, all policy costing requests must be made public. However, by submitting the overwhelming bulk of their policies to the PBO before the election is called, parties can keep their costing confidential. This was how the Coalition managed the 2013 election and it appears to be how Labor is managing this year.

The PBO received a total of 1520 policies to cost in the 2013 election, of which only 85 were publicly announced policies (by the Greens) during the actual campaign.

So far this financial year, the PBO is up to 2100 costings, with hundreds submitted in the few days between the budget being brought down and the calling of the election the following Sunday. Labor is disclosing the PBO's estimate of the cost of its policies, but not the full documentation showing the assumptions and, importantly, the reliability rating that the PBO attaches to each of its costings. Reliability is particularly a concern on Labor's use of 10-year costings. "We always put reliability ratings on our costings and in doing so, we'd say the further out you go, the less reliable the costing is. But that's not a reason for avoiding doing a longer term costing to give an indication of the direction in which the program is headed," says the PBO's Bowen.

Labor has costed all its policies over both the four-year budget estimate period and over 10 years. Its policies on negative gearing and the savings from rejecting the government's company tax cut are relatively minor over the four-year budget period but build to large amounts over the longer term.

The government did not include a 10-year costing for what the budget hailed as its "10-year tax enterprise plan". But Shorten got a costing from the PBO for what could be saved, which forced the government to release its own costing, a very similar figure.

Bowen says the PBO has "helped to level the playing field" in a way that the Charter of Budget Honesty did not. "Has it resulted in detailed costings reports being publicly aired prior to the election? The answer in the main is no, but to say there has been no impact on transparency would be wrong." Bowen says that even under the charter, parties were not required to have their policies costed but there is more pressure today for parties to at least provide summary detail for a comprehensive list of their policies and their associated costs before polling day. The PBO has given them much stronger capability to do that.

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