

## Everyone to blame for our budget spiral of hopelessness

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Fixing the federal budget is turning into a ridiculous game of inches. No dollar of spending will be easily surrendered. Every cut is taking money away from some vested interest.

Even when Labor and the Coalition agree and have the numbers, as they did during the last sitting of parliament to pass the \$6.3 billion omnibus package of cuts, it took more than six hours of debate to navigate through the Senate.

One measure, which Finance Minister Mathias Cormann told the Senate was an “absolutely minuscule” saving worth \$3.6 million over four years to veterans affairs, was the subject of a 55-minute argument as Jacqui Lambie and the Nick Xenophon Team’s Skye Kakoschke-Moore passionately fought the move. That is their right. They never had a hope of winning, but would not yield quietly.

As the clock ticked past 11pm, Derryn Hinch asked Cormann to concede the government was pushing ahead too quickly.

“Your fast-moving omnibus bill is really an express train,” Hinch told the nearly empty chamber. Cormann responded that it was just the opposite. “This process has been going for years, these measures have been debated for years, they have been subject to Senate inquiries for years, everybody well understands what the government is seeking to achieve.” The budget is in the ninth year of the “temporary deficit” promised by Kevin Rudd and Wayne Swan when they judged it vital to blow the surplus with a stimulus package to prevent a recession during the global financial crisis.

And it is five budgets since Swan over-promised and spectacularly under delivered with his pledge of “four years of surpluses I announce tonight” that never happened.

The Coalition no longer uses the language of “budget emergency” it feverishly promoted and vowed to address and due to its own shortcomings and a Senate blockade has not yet handed down a deficit smaller than \$37bn.

Delivering his first budget in May, Scott Morrison said he was trying to “control spending” with “disciplined restraint”.

Former treasurer Peter Costello used to say the easiest spending cut you’ll ever make is the new spending you never go into, because you’re not taking anything away from anybody. The \$37bn deficit Morrison has announced for this financial year is twice as large as the \$18.8bn deficit left in Swan’s last full year in charge in 2012-13 — the one that was supposed to be in surplus.

The budget in 2013-14 had three treasurers’ fingerprints on it — Swan, Chris Bowen for 72 days and Joe Hockey — and came in at a deficit of \$48bn, the second highest ever, as the Coalition accused Labor of leaving “spiders in the closets” by only partially funding offshore immigration detention, leaving the Reserve Bank depleted and unfunded public service cuts. Then one of the Coalition’s first acts was a pact with the Greens to abolish the debt ceiling. Neither Labor or the Coalition, on their current trajectory, promise a surplus before the next election. Morrison hopes for one in 2020-21. Labor went to the last election with a plan that would leave the budget \$16bn worse off over the next four years before making everything tickety-boo within a decade. These scenarios are based on Australia continuing on its growth path of the past 25 years. What happens if something goes wrong?

No one doubts that repairing the budget is not easy, especially when it's a slog to cut \$3.6m, but where is the urgency to fix it? The omnibus savings of \$6.3bn were cheered by the government as evidence it was making "immediate and tangible headway" towards balancing the budget but this money is already factored into Morrison's budget and as former treasury secretary Ken Henry told Paul Kelly in The Weekend Australian, another \$360bn needs to be raised to meet policy commitments and discharge debt.

We have fallen into such a depressing budget spiral of hopelessness and low expectations that there's a buzz of excitement when a promise can be delivered.

Everyone is to blame for this.

As Costello — the last treasurer to deliver a surplus — told the Menzies Research Centre recently, governments have not adequately made the case for budget changes. "Before the public's going to take the medicine on spending, taxes, whatever, you've got to tell them what the illness is. They've got to be convinced it's an illness worth treating."

Some of the prescriptions have been terrible and poorly explained, but equally there has been no penalty for opposing budget repair. In fact there is an incentive as voters reward oppositions and the crossbench for populist positions. The major parties abuse each other and themselves and lose the trust of voters who turn in record numbers to minor parties and independents who can't possibly fix the problem and don't offer to.

The result is that budget repair runs aground on the rock of unfairness, yet there is no accounting for the overall unfairness that the most prosperous generation is not paying its way. And as Henry warned, we drift, waiting for a painful crunch that could unleash catastrophic consequences.

A few weeks ago Treasury secretary John Fraser gave a speech in London where he warned it was difficult to convey the importance of cutting spending and fiscal tightening as occurred in the 1980s and 90s because most Australians felt prosperous and, in his view, could not see an economic problem as they were happy to pay \$8 for a medium strength beer at sporting events.

"But there is a problem and that's why we keep banging the drum about it. It's a problem that is growing."

New Reserve Bank governor Philip Lowe told the members of the House of Representatives economics committee last Thursday they had to stop borrowing to cover day to day spending.

Right now the government is paying \$1bn a month just on the interest bill for the \$326bn net debt. The budget predicts it will go higher to almost \$1.2bn a month in the next two years. How many warnings does it take?