Why Scott Morrison should go for an early election

Terry McCrann, Business Columnist, 11:00PM December 7, 2018

Amazingly, private citizen and exceedingly miserable and all-too obvious non-ghost Malcolm Turnbull is actually right about an earlier federal election being better.
But not, for the ludicrous, lame, that is to say conventional Turnbull-lite, reasons — delivered with the most deliberate, extreme and undeniable malice-aforethought.

And yet, for all that malice, better — indeed, arguably unavoidably better — for federal leader Scott Morrison as against Turnbull's nominated beneficiary, NSW premier Gladys Berejiklian. Although she would probably be an incidental beneficiary — if indeed anyone on the Coalition side of politics can benefit in any way by the passage of time through 2019.

The reason why earlier is better is very simple: it might enable Treasurer Josh Frydenberg to construct a budget that delivered a credible path not just back to surplus but rising surpluses while also providing some ability to deliver tax cuts and targeted spending.

That is to say, a — broad — replay of Peter Costello's 2007 budget, which was confirmed and indeed augmented in the pre-election MYEFO as the election was called and then confirmed in the subsequent independent Treasury PEFO.

MYEFO, the Mid-Year Economic and Fiscal Outlook, is "owned" by the government; PEFO, the Pre-Election Economic and Fiscal Outlook is "owned" by Treasury. But because of the usual proximity of the PEFO to either a MYEFO or a budget or a budget update — both are prepared by Treasury — every PEFO since the first in 2001 has been a bland confirmation of a preceding government document.

No government would rationally risk having a PEFO that significantly contradicted its official portrayal of the economy or the budget, or which "sprung" a negative fiscal or economic surprise. But in 2019 that is exactly one of the two key risks of a "later" election.

We should immediately note of course that the Howard Coalition government still lost the election, despite its great fiscal record — a record and a political history and position somewhat better than that of the current government. And in 2007, it had no miserable non-ghost sniping from the sidelines.

The far more potent "comparison", though, with the budget that Frydenberg could unveil for an early election, essentially, the MYEFO, is not with Costello's 2007 efforts, but the budget that he — or Treasury with its PEFO — might have to unveil in early April ahead of a May election.

In short, Frydenberg has to lock fiscal and economic forecasts into the MYEFO because the MYEFO could be the last chance to paint a positive outlook, or positive enough to not utterly destroy the government's political position.

He must also, at the same time, lock the PEFO into the MYEFO numbers as well. The only way that can be done is by having an election by early March at the latest.
After the shambles in parliament this week, I might add even more simply: do Morrison and Frydenberg really want to come back to more two-chamber February flagellation, anyway?

Why do I argue this? Those "weak" September quarter GDP figures and the developing credit squeeze — which could approach that of 1990, which sent us spiralling into the worst recession since the war — alluded to by the Reserve Bank in its ostensibly unchanged interest rate decision and policy outlook.

The 0.3 per cent September quarter growth figure posed the question of whether the economy had weakened or was in the process of weakening. In contrast to the more hysterical commentary, it did not answer it in the affirmative.

There is though, enough — perhaps even too much — broad granular context to be concerned. What's happening in the property market and inevitably with construction; what's happening to wages and household income and (barely positive) savings, debt and debt service; to retail and consumer spending more broadly.

The one big positive remains strong employment. But jobs are always a lagging indicator, if extraordinarily important to future fiscal projections. This is why the credit squeeze issue becomes so important and so time-critical.

In an exercise of significant understatement, the RBA noted “some lenders having a reduced appetite to lend”. The “some” are the four big banks, which have been turned severely risk-averse in the glare of the banking royal commission’s counsel-assisting Rowena Orr, QC. “Reduced” is a euphemism for slammed tills. The big four have a “reduced appetite” to lend to especially small and medium business, not on the normal credit basis of repayment risk but the risk of having loans subsequently defined as “bad” loans. And SMEs employ 75 per cent of the private sector workforce.

Since the early 1990s we’ve become accustomed to the idea that credit will only be tightened by higher interest rates and so, only by the RBA. But credit can just as effectively be tightened by its withdrawal, even at low rates — outside the power of the RBA to do anything about it.

The RBA — and I presume Treasury — is going to spend January doing two things. The first is simply to see “what develops”, both domestically and globally. It will also revise its forecasts for the February Policy Statement. Any budget document, any policy promises, which followed that statement will have to reflect both the forecast reality and even more obviously the emerging economic and financial realities.

In contrast the MYEFO will — and any closely following PEFO, on an early election call would also — be built on the still positive economic forecasts; and indeed also on the, despite the September quarter GDP, positive current economic reality. A very good proxy for that is the upbeat November RBA forecasts. I am not saying — and more importantly, the RBA is not saying — that the economy is about to go over a cliff. Only that while Frydenberg can have as very positive MYEFO, the positivity has a very, very limited guaranteed half-life.