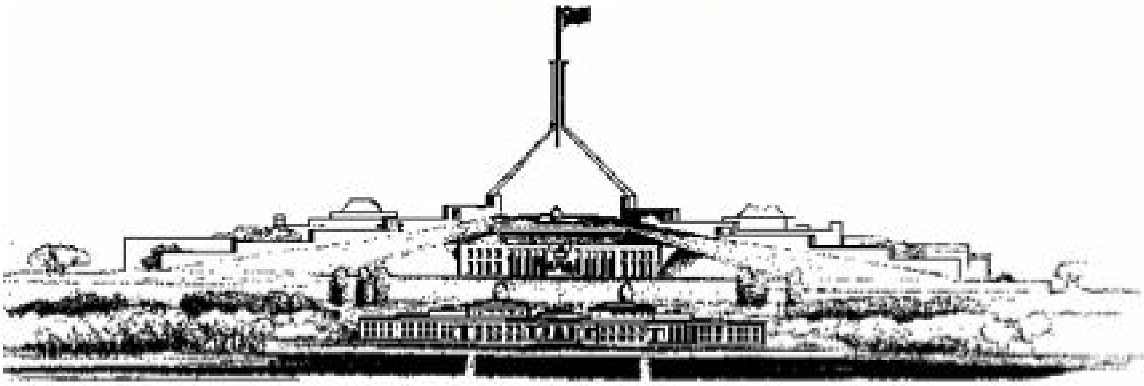
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

APPROPRIATION (NATION BUILDING AND JOBS) BILL (NO. 1) 2008-2009

APPROPRIATION (NATION BUILDING AND JOBS) BILL (NO. 2) 2008-2009

HOUSEHOLD STIMULUS PACKAGE BILL 2009

TAX BONUS FOR WORKING AUSTRALIANS BILL 2009

TAX BONUS FOR WORKING AUSTRALIANS (CONSEQUENTIAL AMENDMENTS) BILL 2009

COMMONWEALTH INSCRIBED STOCK AMENDMENT BILL 2009

Second Reading

SPEECH

Wednesday, 4 February 2009

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date	Wednesday, 4 February 2009	**Source**	House
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Questioner		**Responder**	
Speaker	Costello, Peter, MP	**Question No.**	

Mr COSTELLO (Higgins) (6.28 pm)— I rise to speak on the Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009 and cognate bills. In August 2007, world financial and equity markets began falling rapidly in response to mortgage defaults rising in the United States, particularly in an area of the market known as the subprime mortgage market. In this sector of the market, in which a lot of easy money was given to very bad risks, mortgage defaults began to rise and people began to be concerned not just at those borrowers unable to service their loans but at those lenders who had made unwise loans and would take consequent losses. During the period of the Howard government when I was Treasurer, I frequently adverted to the risk that this would be to the US economy and to the world economy generally. It was easy to see that a problem was developing, although nobody was sure of the particular dimension.

We in Australia were concerned about the fallout of this crisis and we had taken steps to ensure that Australia did not ape the experience of the United States, that we did not have exposure to subprime mortgages in anywhere like the dimension that they did in the United States. We did that in several ways. One was by contacting the Australian Prudential Regulation Authority, APRA—an organisation which our government had established—and ensuring that it was in contact with financial institutions in Australia, ensuring that credit standards were not diminished. On occasion I also called in the chief executives of the major Australian banks and said to them that the government were concerned about credit standards and we did not want to see credit standards dropping in Australia. We did not call low-credit borrowers ‘subprime’ borrowers; the expression that was used in Australia was ‘low-doc’ borrowing. These were low-documentation loans which sometimes could be given to people who had no capacity to repay them.

Australia was much more successful than the United States in reducing exposure to bad credit risk and thereby limiting the losses that our financial institutions would be exposed to if mortgage defaults should rise. As far as our government was concerned, the response to the international developments was that Australia had to ensure that it kept a robust and growing economy. Those people who remember the slogan that the coalition had in the 2007 election remember that our slogan was ‘Go for growth’, that it was important that Australia continue on a path of growth and that it ought to be underpinned and supported by strong economic policy. In fact, in the course of the 2007 election I announced a major reform of taxes which would reduce tax burdens for all Australians. As is known, the Australian Labor Party copied 91½ per cent of those tax cuts and put them in place, on the same timetable, at the same levels—with the exception of reductions in the top marginal tax rate—in its May 2008 budget. There were many economic commentators who said that it was irresponsible to go for growth, that it was irresponsible to cut tax in 2008, but I think as we look back we can see these were wise decisions. If we should have been doing anything in 2008, we should have been putting more effort into going for growth before the events that unfolded in the course of the year.

What was the Labor government’s response to these developments? The Labor government decided that Australia’s problem was very different in 2008. The Treasurer said that the ‘inflation genie’ was out of the bottle, that spending was out of control, that spending should be reduced and, by implication, interest rates increased. Indeed, the Reserve Bank of Australia famously increased interest rates in November 2007, during an election campaign, and was egged on by the Labor Party to continue increasing interest rates, which it did until as late as March 2008. In the light of the massive reductions in interest rates since—massive reductions which of course I support—it is clear that the course and the conduct of monetary policy in late 2007 and early 2008 were mistaken and that the turning point in the economy was overlooked.

Why was it that the Labor Party focused so heavily on the so-called inflation genie? Well, when you inherit an economy which has a budget in surplus and no net debt, which has unemployment at 30-year lows, where the credit rating has been restored to a AAA rating on foreign currency bonds, where you have a Future Fund of $61 billion and a Higher Education Endowment Fund which has been set aside for the educational sector—when you inherit a economy in that condition—you have to find a fault somewhere. If you cannot find a fault somewhere, what problem have you got to solve? So the Labor Party, naturally enough, looked for a problem. The trouble is it was the wrong one. It is hard to remember but, if we go back to January 2008, 12 months ago, the Australian Labor

Party had not only diagnosed the wrong malady; it was administering the wrong treatment.

I am amused to hear Labor member after Labor member stand on their feet and talk about the importance of new spending. When you were arguing in favour of your budget in May 2008—please go and check the *Hansard*—you were arguing in favour of new expenditure cuts in this budget year, in this budget. I could go to many of the historical documents. The one I like the best is Kevin Rudd's address on 21 January 2008 on how to build Australia's economic future. He said this:

> Prior to the election, we ran as fiscal conservatives.
>
> With the election behind us, we now intend to govern as fiscal conservatives.

He went on to say:

> Today I announce a fiscal target that will guide our budgetary process …

That was for this year's budget, the May 2008 budget, for the financial year which does not finish until 30 June 2009. This is what he was saying about how he would be guiding this financial year. He went on:

> The Government aims to deliver a budget surplus of at least 1.5 per cent of GDP …
>
> This will require a determined, disciplined approach to spending and a hardline approach to savings.

We are debating here a $42 billion package which will drive the budget into deficit of over $20 billion this year, which will cumulate deficits of over $100 billion in four years, with a promise that we would be having a disciplined approach to savings. It was a massive miscalculation and we can all see that now. But it continued right through the course of 2008, and as late as September of last year, less than five months ago, the Treasurer told this House:

> … we identified the magnitude of the inflation challenge and dedicated ourselves to addressing it … It was imperative we abruptly change Australia's fiscal direction and move away from the reckless spending of our predecessors.

Oh boy, they changed fiscal direction. They changed fiscal direction all right, but they did not change fiscal direction by moving away from reckless spending. They did not change it by tightening spending. Here we are five months later and we have changed fiscal direction—we have changed fiscal direction from a $20 billion surplus to a $22 billion deficit. We have changed it all right. It is just that the direction in which we went was not forward; it was reverse—and in the space of five months. All these born-again Keynesians were in September of last year part of the neoliberal conspiracy, believing in tighter budgets. They were going to show the Liberal Party who the real he-men of fiscal conservatism were by reducing savings and building budget surpluses.

The 2008 budget would be today probably the most worthless financial document in Commonwealth history. What it predicted would happen in this year bears no relation to reality. It can best be filed in the fiction section of the Parliamentary Library, because every one of its forecasts is now out of date. In November we had the Economic Security Strategy, which was going to bring economic security to Australia. It was a $10 billion spend. It has been and it has gone. Now we are back here in February with a $42 billion spend, being told that this $42 billion spend is the medicine that is required; this is the one that will do the trick. We are going to have a budget in May. Is there any speaker on that side of the parliament in the Labor Party who can promise us that there will not be another spending package by May or June or September? Has anybody said in any of the documents: this is the last shot in the locker? We were being told that $10 billion was the government's ask in November. Now we are being told it is $42 billion. In between, by the way, I think sometime over Christmas, the Minister for Finance and Deregulation said he was going to form a razor gang. At the time that the government were apparently gearing up to a $42 billion spend, they were also going to set up a razor gang. What this tells me and what this statement tells me is that this is a government which is unnerved and which is struggling step by step with measures that it has not consistently thought out, and it is on the run. It was on the run in November; it is on the run in February.

Let us go to the documents themselves. The documents say that this $42 billion will support 90,000 jobs—not 'create', not 'keep' but 'will support'; make some contribution, in Treasury-speak. Forty-two billion dollars and 90,000 jobs is about $400,000 per job. Do the arithmetic; do the maths. Do you think that is good value for taxpayers' money: $42 billion for 90,000 jobs? The government says, 'Oh well, the budget is sliding into deficit because our revenues are down.' But, if you go to reconciliation table 4.2, the budget has been driven into deficit by policy decisions, not by parameter changes—$10 billion in MYEFO and another $18 billion in this statement. That is $28 billion off a starting point of 20 or 22. It is policy decisions; it has nothing to do with revenues. The figure that the Prime Minister talks about of revenues, $115 billion, is in the out years. He is telling you what he thinks is going to happen between now and June of 2011. And if you believe that you will believe anything. This is a government that in May could not tell us what the position would be in February, and now it wants you to believe that it is telling you in February of this year what the position will be in June of three years time. It has no idea.

Those forward estimates bear as much relation to what is going to happen as the May budget bears relation to where we now are. All we can tell you is that the government want to be able to borrow another $125 billion. That is the ceiling they have sought: $125 billion. That is what they think they will need authority for, and they are asking this parliament for authority to borrow $125 billion over the next few years. When we came to office, when I became Treasurer, Australian net Commonwealth debt was $96 billion. It took us 10 years to pay that back. Labor has not even had one full budget year and it is seeking authority to re-borrow the lot, to take us right back where we were before we began a 10-year program to free this Commonwealth of its net debt—10 long years. As somebody who did take a budget out of deficit the last time Labor was in government, I can tell you it is hard to do. Even the government themselves are not saying they will do it in this term. Even the government themselves cannot tell you what is going to be the financial situation in two years.

A temporary deficit can last for a very long time. According to this statement, it will last for at least four years—that is, even if growth returns to trend. What if growth does not return to trend? Where will the Australian budget be then? What will be the debt position? We are embarking now on a slippery slope where nobody can tell you what the final outcome will be and no-one has an exit plan. We are reversing 10 years of hard work and we are doing it to support 90,000 jobs at more than $400,000 a job.

The other point I want to make about the quality of this spend is that a large part of it is transfer payments to stay-at-home mothers, to families with children. Of course, they will welcome those payments. But a family worried about the risk of losing their jobs are not going to take a payment and go and spend it. They are not going to say, ‘We’ve got a payment; let’s get out to the cafe and order a big dinner.’ That family is rationally going to say: ‘If unemployment is rising and our jobs are at risk, we’re going to save the money or, preferably, pay down our mortgage. We’re going to degear the household, just like businesses are degearing.’ You can understand that. This is why the Treasury has not modelled more jobs as an outcome.

But the thing that amazes me about these transfer payments is that apparently there is nothing for the unemployed. They are for working taxpayers. If you had income in the previous year you will get a bonus. What if you were on unemployment benefits? I thought this was a package to help people who are out of work, but there is nothing for the unemployed and nothing to reduce the costs of labour for businesses that might want to put on more employees. There is nothing in there that creates an incentive to add to the labour supply. There are transfer payments all right, and they will be welcomed by the people who get them, but this is not a jobs strategy.

Why else can I say this is low-quality spin? I can tell you why else. It is because the proposal to insulate houses was rolled up to me as Treasurer. It is not new; it was rolled up to me. This proposal did not materialise because of the global financial crisis; it has been down in the Department of the Environment, Water, Heritage and the Arts for years. What happened is that, once it became known in the federal Public Service that the spend was on, the departments dusted off their spending proposals. We did not need a global financial crisis to go into insulation of houses. That has been on the books for years.

Similarly, the rebuilding of schools has been on the books for years. The state Labor governments have been responsible for that for years. We did not need a global financial crisis to rebuild educational institutions. What has happened here is that the departments have dusted off their spending programs. They have found a few neophytes who are running the government and they have said: ‘Bring them in. Give it $42 billion. Take the budget down by $100 billion, and we will be back in May for more.’

If you think that this program is going to be the difference between a recession and growth in the Australian economy, you have not read it. There will be growth of half a per cent, the Australian Treasury says, for $42 billion. It is not value for money. It is taking Australia on a bad path into deficit and debt. It is hard to get out of those. It is not in Australia’s interests. *(Time expired)*