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Hockey's rearguard action to broach the beach of entitlement

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Treasurer Joe Hockey has a compelling case to tackle the unsustainable fiscal legacy left by Labor. Source: News Corp Australia

WITHOUT the ground having been adequately prepared, Joe Hockey and his landing party have struggled to secure a foothold on the beach of entitlement. And as they prepare to crawl through hostile terrain in the Senate, more casualties lie ahead. What could have been done to avert the losses will fuel controversy for years to come. Earlier release of the Audit Commission's dire fiscal predictions would have helped. So would hammering home the fact that Labor's promises were entirely unfunded, and would never have been delivered. The Department of Finance's incoming government brief said as much; but although the government dropped hints, it couldn't quite bring itself to break the bad news.

In part, that was because the problem's full dimensions took too long to sink in. When it came to office, the government's line was that trimming a bloated bureaucracy would do the trick: but without saying anything, Labor had already factored a knife attack on public service employment into its last fiscal statement, claiming savings even greater than eliminating jobs could ever hope to achieve.

To make matters worse, the Coalition had committed to at least initially maintaining Labor's social spending, as well as to its own expensive paid parental leave scheme. With a disillusioned public in no mood to tolerate broken promises, discarding those engagements risked irreparable harm.

The unprecedented election rerun in Western Australia only increased the risks. With no guarantee the Coalition would hang on to its Senate seats, talk of cuts was taken off the agenda. And even once the rerun was done, the mixed messages continued, especially as Treasury reverted to its Keynesian

playbook, warning of the impacts retrenchment might have as the investment boom ended.

That made it all too easy for the budget to be characterised as a bolt from the blue, and a savage one at that. The high price the government has paid is therefore unsurprising. Nor is it surprising that it is now fighting a rearguard action. However, Hockey has a compelling case to make.

The fiscal outlook speaks for itself: Labor left an unsustainable legacy. With spending growth primed to explode, gross debt was set to reach \$700 billion by 2023-24, at which time more would be spent on interest payments than on aged care: and that optimistically assumed economic expansion would continue unchecked. Moreover, like Wayne Swan, Chris Bowen craftily shifted the steepest increases to just beyond the forward estimates, with spending projected to rise by 5.9 per cent in 2017-18 alone, a rate of growth only exceeded in the massive fiscal stimulus of 2008-09.

Adding to the woes, the spending surge was to occur at a time when real incomes were stagnating, making outlays ever more difficult to finance.

From 1973 to 1992, real net national disposable income per capita remained almost unchanged at \$30,000 in today's prices. Microeconomic reform, followed by the resource boom, then lifted it spectacularly to \$52,000 by 2008; since then, however, it has remained virtually constant, and is now in slight decline. Yet Labor locked in expectations that commonwealth outlays could climb forever.

But the overall level of expenditure is not the only concern. However shrill the counterclaims, it is hard to deny the need to bring welfare spending under control. Historically, Australia was a late-comer to the large-scale welfare state. In the Menzies era, social security expenditure accounted for some 4 per cent of Australian GDP, compared with 9 per cent in the UK and 15 per cent or more in Germany, Sweden and France. However, the election of the Whitlam government in 1972 initiated a rise in welfare outlays that has at times been slowed, but never durably reversed.

The paradoxical result is that despite 23 years of extraordinary economic growth, in which the real incomes of the poorest 20 per cent of Australians increased, from the mid-90s to 2005, by 2.4 per cent a year (compared with only 1.9 per cent for the richest 20 per cent), we are spending more on transfers intended to alleviate hardship than ever before.

In 1983-84, per capita welfare spending was \$1500 at today's prices; now it is \$6000: and left unchecked it would have reached \$10,000 by 2020. As that growth has occurred, transfers have absorbed an ever-rising share of tax receipts, crowding out other expenditure. In 1996-97, outlays on social security programs were equivalent to 75 per cent of the revenues from personal income taxes; under Rudd-Gillard-Rudd, that proportion reached 92 per cent and was on the path to exceeding 100 per cent.

At the same time, we have entrenched a pattern in which one section of the population receives without paying, while another pays but does not receive. That is partly what the welfare system is intended to do: help those who cannot help themselves, while taxing those who can afford to pay. But the danger is that the welfare trampoline will become a trap, shielding large sections of the community from any sense of mutual obligation and (as ever more voters become either claimants or are employed in dispensing public moneys) making welfare reform increasingly difficult to achieve.

The sheer scale of the welfare transfers suggests that danger is far from imaginary. Cash benefits now account for more than a third of the overall incomes of households in the lowest fifth of the income distribution. But for each \$20 of cash benefits, the average household in that lowest fifth pays less than \$1 in income tax. Conversely, the average household in the highest fifth pays \$17 in income taxes for

each \$1 it receives in cash benefits.

Set against those transfers, the budget's changes, which take the ratio of welfare spending to income tax revenues back to its levels under Howard, are hardly a case of slash and burn. Indeed, that much is clear even in the analysis ACOSS commissioned from the National Centre for Social and Economic Modelling. The most harshly affected households, that analysis shows, are working-age couples with no income from employment and two dependants. But even for those households, the claimed loss in 2014-15 is \$47 a week, which could be more than made up by working three hours at the new minimum wage. None of that means the government's proposals are perfect. Nor do they come close to doing all that is needed. On the contrary, unless flanked by labour market reforms that unlock job opportunities for those whose welfare payments are being reduced, they risk inflicting pain for little gain.

The hysteria with which they have been met does nothing to address any deficiencies. Palmer's crass opportunism was predictable; so was the Greens' Molotov cocktail of muddle-headed thinking and strident indignation. But it was less predictable that Labor would so quickly abandon any commitment to a return to surplus.

Once, Labor spoke for producers; then, under Hawke and Keating, it seized the mantle of representing taxpayers and consumers. Now, it risks degenerating into the party of those who live at their fellow citizens' expense. Catering to that constituency, Bill Shorten peddles the illusion that economic realities can be ignored.

Like the Walt Disney character who runs over a cliff, but defies gravity until it looks down, that is fine for children. But as a rallying cry for the opposition, it betrays a chilling lack of political maturity. And with the fiery rhetoric of redistribution drowning out fiscal common sense, it suggests the battle of Entitlement Beach may prove as bloody as it will be prolonged.

