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Budget

SPEECH

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Questioner
Speaker Taylor, Angus, MP

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Mr TAYLOR (Hume) (11:54): I would like to start with a quote from a speech. It says:

... it is not popular to take entitlements away from millions of voters ...

... ..

Most undemocratic nations are ... unable to afford the largesse of universal entitlement systems. So, ultimately the fiscal impact ... must be brought to account no matter what the political values of the government are or how popular a spending program may be.

... ..

... The Age of Entitlement is over.

Are these the words of a modern-day prophet? Speaking to the Institute of Economic Affairs in London in April 2012, Joe Hockey, now the Treasurer, was laying it on a plate. That was two years ago. Now all we hear from Labor and the crossbenchers is that they have had no warnings: it is all about broken promises and no time to prepare. What a load of rot. There it was laid out on a platter 24 months ago. That is when we started explaining it to Australia. On May 13 this year, we carved it up into bite-sized chunks, and we are still hearing that it is too tough to swallow.

I rise today to support this series of appropriation bills because they will start us on the path to saving a great economy. We laid out the problem well in advance of action. We have cut it up into bite-sized pieces for easier consumption. We understand there is a period of rumination, even of spitting some bits out. But, at the end of the day, it is crucial these bills make it through. I do not often play travel agent or tour guide, but if we do not get this budget passed, in complete or near complete form, we are all going to Europe together—and not for a holiday.

Let's look a bit closer at the ruin that is rife in the European Union, Japan and the US. It always starts with private debt, particularly household debt, which then becomes public and government debt when the economy hits the ropes. There is a lot of talk about what is really going on with Australia's finances at the moment, so I want to lay the facts on the table in a pretty impartial way. It is true that we do not have the highest level of government debt in the Western world yet; in fact, we are still some way away from it. But we do have the one of the highest levels of household debt in the Western world through mortgages and credit cards. Private household debt in Australia—excuse the pun—is through the roof. Few other countries, except for Ireland, come close. This is why you hear that so many people my age, living in my electorate of Hume, are scared about their mortgages. They are worried about losing their jobs, about interest rates going up and about the cost of living going up. I hear this every day.

We are now layering mountains of government debt on top of our private debt. We have \$1.84 trillion of household debt. These are such big numbers they are almost meaningless. That is bigger than the whole economy itself. It is equal to \$80,000 for every man, woman and child in Australia. The interest bill is over \$100 billion per year. But if we do not intervene now within four years our public debt, on top of this private household debt, will reach \$667 billion—around \$50,000 per household. It is a mountain of red ink that is getting higher and higher. It is growing very, very fast. In fact, we know that Australia's public debt is rising the fastest of any country in the OECD. For us to stand by and not act on it would be incredibly irresponsible.

To see how this might play out in practice, let's look at some other countries. There is no shortage of sobering examples. During the eighties and nineties, Japan had private debt levels equal to the size of their economy—a little less than we have in Australia today. This fuelled a property boom, which many of us remember, and it was not a problem so long as property prices stayed high. But in the early to mid-nineties, the Japanese property sector collapsed and the private debt—the household debt—was transferred over to the government.

Let us put this in perspective. Before the property price collapse in Japan, government debt was equal to less than half of the economy. But, as the economy hit the ropes, the government had to step in to prevent systemic failure, and government debt increased threefold relative to the size of the economy. The following two decades have created immeasurable pain for the Japanese economy.

We see similar patterns in the United States. By 2007 US household debt had reached about 130 per cent of disposable income. Meanwhile, savings rates had collapsed. When the financial crisis hit, federal government debt was around 45 per cent of GDP, but, again, the government had to step in to take on that household debt, and government debt moved rapidly north, towards 100 per cent of the economy.

We can debate whether these countries got the policy settings right on their day of reckoning. But what is clear is that high private debt, high household debt, is easily and often transferred over to the government. The best antidote is to run government surpluses when we can and to support strong economic growth, investment and employment. That will ensure that my constituents with mortgages and with large credit card debts are in the best possible position to survive tough times. Having high government debts and deficits when there is a towering household debt is like taking the shock absorbers out of your car. When you hit a bump in the road you need shock absorbers; and when the government already has too much debt there is absolutely nowhere to go.

None of this is to say that I am pessimistic about the economy. In fact, given the emphasis in the budget on investment in productive infrastructure, workforce participation, research and education, there is good reason to be optimistic. Indeed, driving growth through participation, investment in infrastructure and so on is exactly the response to the situation. In this circumstance strong growth in employment is critical and it is what we are focused on.

Every Australian with a mortgage knows the danger of losing your job. That is why this budget is enabling long-term growth rates in employment, with a shift from consumption to investment. In contrast, continuing to run up government debt in the face of this towering mountain would be totally irresponsible. Everyone in my electorate with a loan should be screaming at Labor and the crossbenchers to play their part in sorting this out. We cannot take the risk of continuing down this path.

There is another side to this. For decades, resource economists have studied the economic implications of a big surge in commodity investments and exports, exactly as we are experiencing today and have been experiencing for a number of years. Ironically, much of the best economic research has been done here in Australia, but the last government ignored it. The conclusions of this research are very clear and totally aligned with this budget. First, it is absolutely critical to drive productivity with investments in participation in the workforce, infrastructure and innovation. This takes pressure off the non-resource parts of the economy. In the absence of these initiatives, we see the scorching of non-resource parts of the economy, often referred to as a Dutch disease. We saw no shortage of Dutch disease in the economy over the last six years, as our tradeable sectors like agriculture, education, tourism and even resources itself struggled with a huge loss of competitiveness driven by an unduly high exchange rate. In my electorate of Hume, we saw a range of businesses—farmers, engineers and others—suffering from this disastrous situation.

As well as driving productivity, governments need to run surpluses, and, wherever possible, push those savings offshore into their own sovereign wealth funds. Of course, when you have hundreds of billions of dollars of debt and deficits of \$50 billion a year, government saving is only a dream. But reducing our deficit is what we need to do, and it is exactly what we are doing.

Let us put this reduction in the deficit that we are now undertaking into perspective. Roughly \$10 billion a year in deficit reduction is planned through the budget forward estimates period and the year beyond. That equates to about 0.6 per cent of GDP. Most economists will tell you that the private sector will absorb a good portion of that loss. So the reduction in economic activity that we are talking about here is pretty minimal and pretty manageable, given the starting point.

The good news with all of this is that—people often forget—when you cut government spending, a series of benefits flow. Most importantly, cutting deficits helps to contain interest rates. Interest rates worldwide are very low, and Australia's are far higher than everyone else's by two or three percentage points. But by containing interest rates, we take pressure off those with mortgages—the ones raising kids, buying houses and so on. The low global interest rates will not stay with us forever. As they climb, the risk is that ours will climb with them. The stakes are very high, but reduced deficits give the Reserve Bank the opportunity to contain interest rates.

Everyone with a mortgage should be thankful that this government is working to live within its means. On top of taking pressure off interest rates, running government surpluses—or reducing the deficit—also takes pressure off the exchange rate, helping our farmers and other exporters. We absolutely have to do this.

The final reason why we have to act on the deficit is because we cannot leave huge debts for the next generation. There is one fundamental difference between government debt and private debt—and that is, you cannot leave private debt to your kids, but you can leave government debt to your kids. That creates an enormous temptation for bad governments. That is what has happened in Europe, that is what is happening in the US and, in the absence of our intervention, that is exactly what will happen here in Australia. The need to act is very clear now, and the benefits from immediate action are enormous—for mortgage holders, for exporters, and for the next generation.

Deputy Speaker, you remember the excitement—the travel brochures out on the coffee table, the suitcase flung open. Going to Europe was something to look forward to. We do not want to go to Europe now—in Greece, Portugal and Spain the debts are, arguably, unpayable. In Spain, the 18- to 35-year-olds are facing a 40 per cent unemployment rate or more. The debts owing in Greece, Portugal, Ireland, Belgium, Spain and Italy have seen the near collapse of the eurozone—and it all started with too much private debt. Australia has a huge private debt. We do not want to go to Europe. The appropriation bills before the House are the start of a different kind of journey for Australia: a journey of recovery. This is the trip we really want to be taking. I commend this bill to the House.

The DEPUTY SPEAKER (Mr Whiteley): The question is:

That this bill be now read a second time.