

ANZSOG Case Program

The Hard Sell: Australia's 2014 Budget (A)

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9 May 2014: Treasurer Joe Hockey and Finance Minister Matthias Cormann ducked out of the office for an afternoon cigar. But instead of using a private courtyard, as per their custom, they sat outside the Treasury building – in full view of a Channel Nine television camera. Though they were hardly the only federal politicians who savoured a discreet nicotine hit, their tobacco break sparked public controversy. Hockey's inaugural Budget was just days away and advance publicity revealed that it was going to be particularly hard on welfare beneficiaries and the young. By the evening news bulletin, social media was alight with critical memes and commentary, accusing the Abbott Liberal-National Coalition Government (and Hockey in particular) of being callous and out-of-touch.¹ Release of the Budget didn't help. Eventually, the image of Hockey and Cormann blowing clouds of pricey smoke into the crisp Canberra air came to be emblematic of the 2014 Budget, and a defining moment in the Treasurer's career.

'The age of entitlement is over'

'Prosperity isn't a matter of luck. Prosperity is not a gift,' the Treasurer declared to Parliament on Budget Night. 'It needs to be earned... On the back of five budget deficits in a row we have inherited a further \$123 billion of deficits² and debt rising to \$667 billion... Doing nothing is not an option. The days of borrow and spend must come to an end. It is time, for all of us, to contribute and build.'³ Hockey then laid out just what the Government intended to do (*Exhibit A*), which included:

- A 2% Temporary Deficit Levy on incomes above \$180,000 p.a. (to last three years);

This case was written by Marinella Padula for Associate Professor Michael Di Francesco, Australia and New Zealand School of Government. It has been prepared from published materials as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation.

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¹ Examples of social media responses can be found at <http://www.news.com.au/finance/economy/federal-budget/joe-hockey-and-mathias-cormann-caught-smoking-cigars-outside-parliament-house/news-story/3ae8f58f4b8dfed205e095f2c1959b4e>

² Based on four-year forward estimates derived from the Government's December 2014 MYEFO.

³ <http://www.smh.com.au/business/federal-budget/federal-budget-2014--full-speech-20140513-3887i.html>

- Increases in fuel excise (indexed to inflation every six months);
- Repeal of the carbon and mining taxes⁴ (introduced by the previous government);
- Cuts to the public service, including closing more than 70 agencies, and public broadcasting;
- Introduction of a \$7 Medicare co-payment on GP visits and pathology services (in addition to a freeze on rebates from 2015);
- Increased co-payments for subsidized medications available via the Pharmaceutical Benefits Scheme;
- New restrictions on unemployment payments to under 30s (applicants would have to wait six months to apply and could only receive the benefit for half the year);
- Deregulation of higher education fees (from 2016, student loans also needed to be repaid sooner);
- Aged Pension eligibility to rise to 70 by 2035, with changes to pension indexation (from 2017);
- An \$80 billion reduction in funding for schools and hospitals (commencing in 2017)⁵ and,
- Tightened eligibility criteria for family payments and disability support.

‘We know that for some in the community this budget will not be easy,’ said Hockey, ‘but this budget is not about self-interest. This budget is about the national interest...The age of entitlement is over.⁶ It has to be replaced, not with an age of austerity, but with an age of opportunity.’⁷ Hockey claimed that everyone would be called upon to contribute for the benefit of future generations. Describing Australia as a nation of ‘lifters’ not ‘leaners’⁸, he later suggested that the approximately 50% of households receiving some form of welfare payment (‘leaners’) were being unfairly propped up by the rest (‘lifters’) – a situation that was ‘unsustainable’.⁹ Most budget measures involved paring back expenditure, with cuts to health and education funding (services delivered by state and territory governments) delivering the bulk of savings. However, for most measures the full effect would not be felt until early next decade. Meanwhile, proposed Government spending included:

- wage subsidies for mature-aged workers;
- a projected \$20 billion Medical Research Future Fund (created with the proceeds of the Medicare co-payment); and
- close to \$12 billion in planned infrastructure spending aimed at reducing transport bottlenecks in particular (*Exhibit A*).

The Budget also made provisions for the Abbott-driven Paid Parental Leave (PPL) scheme which would see primary carers paid income-linked benefits of up to \$50,000 for six months. This would be

⁴ This was a key part of the Coalition’s 2013 election platform, and two of the handful of policies given a public preview prior to taking government. In particular, Abbott used former Prime Minister Julia Gillard’s 2010 election pledge not to introduce a carbon tax as proof of her untrustworthiness when she later introduced an emissions trading scheme that commenced with a fixed carbon price (which Abbott successfully characterised as a ‘tax’).

⁵ This constituted the largest part of budget savings.

⁶ This echoed Hockey’s speech to the Institute of Economic Affairs in London, April 2012. There he called for an end to the ‘Age of Entitlement’ – what he saw as the widespread expectation amongst voters that governments would and should continue to provide a broad range of ‘free’ services and universal benefits, especially without raising taxes or lowering standards. <http://www.smh.com.au/national/the-end-of-the-age-of-entitlement-20120419-1x8vi.html>

⁷ <http://www.smh.com.au/business/federal-budget/federal-budget-2014--full-speech-20140513-3887i.html>

⁸ <http://www.afr.com/news/policy/tax/joe-hockey-we-are-a-nation-of-lifters-not-leaners-20140513-ituma>

⁹ <http://www.smh.com.au/federal-politics/political-news/joe-hockey-was-having-a-mitt-romney-moment-says-bill-shorten-20140612-3a0d5.html>

funded by a 1.5% tax increase on Australia's top 3,000 companies (although other businesses could expect a 1.5% reduction in the company tax rate from 2015).

A new outlook

Hockey's justification for the Budget was partly based on the Mid-Year Economic and Fiscal Outlook (MYEFO) figures he released on 17 December 2013. There, projected deficits for the next four years were revised upwards to the tune of approximately \$68 billion (*Exhibit B*) from the Pre-Election Fiscal Outlook (PEFO) that Treasury and the Department of Finance had prepared for the September 2013 federal election. The PEFO had estimated a return to (modest) surplus in 2016-2017, assuming no change to existing policy settings. However, the MYEFO figures were revised in light of the new Liberal-National government's policies and a different set of forecasts. These policies and predictions included:

- repeal of the carbon tax (reducing revenue by \$2.8 billion over 4 years);
- new land transport infrastructure (increasing capital spending by \$5.6 billion over 4 years);
- a discretionary payment of an \$8.8 billion grant to the Reserve Bank of Australia;
- implementation of border protection policies (to increase expenditure by \$2.1 billion over four years, of which the government says \$1.2 billion was directly attributable to previously insufficient funding for the PNG and Nauru asylum-seeker detention facilities);
- changes to the parameters for determining tax receipts, meaning the government received \$37.8 billion less over the forward estimates than forecast in the PEFO;
- revised terms of trade methodology, reducing economic growth forecasts over the forward estimates by \$2 billion; and
- a change to the projected unemployment rate, requiring \$3.7 billion in extra benefit payments.¹⁰

Significantly, the Treasurer claimed that two of Labor's signature programs that the Coalition had pledged to keep – the National Disability Insurance Scheme (NDIS)¹¹ and the Gonski education reforms¹² – had not been adequately funded by his predecessors. He also claimed that the earlier growth forecasts had been too optimistic.¹³ Consequently, even with Budget cuts, the Government did not anticipate a surplus until roughly 2020. However, it intended to achieve a 1% of GDP surplus by 2023-2024. This was a substantial departure from Hockey's original commitment that a surplus would be achieved in his government's first year, which he later extended to its first term.¹⁴

Shadow Treasurer Chris Bowen rejected Hockey's assertions, countering that the Government had downgraded its economic forecasts in order to generate a budget crisis. Bowen also noted that the Reserve Bank of Australia had not requested an \$8.8 billion capital boost.¹⁵ Hockey insisted that his figures were 'based' on Treasury modelling. However, Treasury Secretary Martin Parkinson had

¹⁰ <http://www.abc.net.au/news/2014-05-06/has-the-government-doubled-the-budget-deficit/5423392>

¹¹ The NDIS, introduced by the Gillard Labor Government, represented a major shift in the provision of disability supports and services. It gives eligible users a needs-based funding package which they then allocate between their chosen government or non-government providers. Initially expected to cost \$15 billion per annum, the Productivity Commission later revised the figure upwards to \$22 billion.

¹² Senior business figure David Gonski's 2011 report called for much greater investment in Australia's primary and secondary education sector to address declining standards and a growing gap between well-resourced schools in affluent areas and those in disadvantaged precincts, most notably government-sector schools. In response, the Gillard Government decided to boost school funding (whilst making higher education cuts) and entered into negotiations with the states prior to the 2013 Federal Election.

¹³ <http://www.abc.net.au/news/2014-05-06/has-the-government-doubled-the-budget-deficit/5423392>

¹⁴ <http://www.abc.net.au/news/2013-09-03/berg-on-track-for-a-surplus/4931502>

¹⁵ <http://www.abc.net.au/news/2014-05-06/has-the-government-doubled-the-budget-deficit/5423392>

previously testified to the Senate that the contents of the MYEFO were not ultimately up to him: 'It is always a decision of Government. PEFO is the only document that the Treasury and the Department of Finance have their names on. In fact, it is not even Treasury and the Department of Finance; it is the two Secretaries. All other documents are documents of the Government'.¹⁶

The Charter of Budget Honesty

Prior to the Rudd-Gillard-Rudd Labor Governments, the previous Coalition Government, led by John Howard, improved the transparency of public finances. The *Charter of Budget Honesty Act 1998* (the Charter) mandated periodic fiscal reporting designed to reduce political chicanery around budget deficits. This was a response to past practices, whereby incoming Coalition and Labor Governments frequently claimed inept or misleading accounting by the preceding government had obscured debts and deficits – the so-called budget 'black hole'. Unsurprisingly, the new administration would then be 'forced' to defer, curb or abandon certain election commitments and/or government programs. The Charter introduced the following requirements:

- the Budget Economic and Fiscal Outlook (The Budget), Mid-Year Economic and Fiscal Outlook (MYEFO) and Final Budget Outlook (FBO) documents for each financial year;
- the Pre-Election Economic and Fiscal Outlook (PEFO) ahead of federal elections; and
- periodic release of the Intergenerational Report (IGR).

Typically delivered each May, the Budget lays out the nation's finances, the Government's spending priorities and estimated revenue for the budget year and the following three years (known as the 'forward estimates'). The Budget is intended to be based on 'external reporting standards' and to provide detail on assumptions and risks (for example, expected inflation or exchange rates) and the sensitivity of forecasts (for instance, the volatility and certainty of revenue and expenditure estimates). The MYEFO, which the Treasurer can release up to nine months post-Budget, updates key Budget information, accounting for all Government decisions and recent developments that may change the fiscal and economic outlook. The FBO outlines Budget and general government sector fiscal outcomes for the financial year, and must be tabled within three months of the financial year end (30 June). By contrast, the IGR takes a long-range view of the Australian economy. Released every five years, it is not tied to specific Budgets. Instead, this report examines the sustainability of current government policy over the next four decades – including how, for example, demographic shifts could affect the country's economic performance, workforce and public finances.

The PEFO differs from the other Charter documents because (as Secretary Parkinson noted) it is prepared and issued by the Departmental Secretaries of Finance and Treasury, rather than the Treasurer. Delivered within 10 days of the issue of the writ for a general election, the PEFO (like the MYEFO) updates economic forecasts and assumptions and the three-year forward estimates, taking account of recent events and decisions taken by the Government prior to the election being called. The Department Secretaries must declare that, 'to the fullest extent possible', the information used in the PEFO:

- i. reflects the best professional judgment of officers of both Departments;
- ii. takes into account all economic and fiscal information available; and
- iii. incorporates the fiscal implications of Government decisions and circumstances disclosed by the Treasurer and Minister of Finance.¹⁷

For their part, the Treasurer and Minister of Finance are, within two days of the election writ, required to inform the Departmental Secretaries of any Government decision, or any other

¹⁶ <http://www.abc.net.au/news/2014-05-06/has-the-government-doubled-the-budget-deficit/5423392>

¹⁷ <https://www.legislation.gov.au/Details/C2014C00438/Html/Text>

circumstance they know of, that has or could have material fiscal or economic implications, and which neither of the responsible Secretaries could reasonably be expected to know about.¹⁸

A process for costing election commitments during the caretaker period is also established by the Charter of Budget Honesty. The Prime Minister can enlist the help of any government entity to cost the Government's policies, although all costings – including their impact on estimates of revenue and expenditure – must be vetted by Treasury and Finance. Policy costings must be compliant with the costing methods and conventions set out in the most recent guidelines issued by the Treasury and Finance Secretaries.¹⁹ Whilst the Leader of the Opposition and minority party leaders can also request policy costings, these are transmitted to relevant department secretaries only at the discretion of the Prime Minister.²⁰

The Charter was intended to illuminate the state of public finances, but it gave only very broad guidance on the content of Budget reporting. No official mechanism existed for reporting progress against the broader fiscal strategy governments laid out at the beginning of each parliamentary term. This failing added to other weaknesses in budgeting processes that have been highlighted over the years. These include the adequacy of medium-term fiscal projections; no obligation to factor in state and territory policies; no requirement to consult with independent experts; fragmentary comparative information; and unnecessary (but not especially informative) complexity.²¹ As for the IGR, some critics considered the report's 40-year time-frame asked too much of forecasts and their ability to inform fiscal policy changes.²²

John Daley, CEO of the Grattan Institute, a non-aligned think tank, observed in 2017 that Treasury forecasts tended to skew positive and that confidence intervals allowed too much room for selective interpretation:

For the last eight years, budget outcomes have consistently been much lower than previous budget forecasts. But in each year, the treasurer has again forecast a happy return to balance over the next four years. Over-optimistic forecasts have made it easy for treasurers to avoid making the really tough decisions on budget repair. Budget outcomes have continued to surprise because of systematic revenue forecast errors by Treasury, which dwarf actual policy changes in explaining changes to the budget bottom line. These are compounded by the wilful blindness of politicians, happy to use these forecasts to justify avoiding difficult decisions.²³

For other commentators, the credibility of medium-term forecasts was undercut when the Budget Process Operational Rules (BPOR) – annually reviewed parameters underpinning the budget framework – became confidential Cabinet documents not immediately available for public scrutiny. The International Monetary Fund also noted that conventional reporting measures, such as those contained within the Charter, weren't immune to manipulation or misrepresentation:

The problems of looking at a single indicator of fiscal performance (the deficit) and a single indicator of fiscal position (the debt) are compounded when the indicators are the subject of fiscal targets. As Goodhart (1975) conjectured in the context of monetary policy, 'any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes'. Applied to fiscal policy, the

¹⁸ <https://www.legislation.gov.au/Details/C2014C00438/Html/Text>

¹⁹ Commonwealth of Australia, 2016, *Charter of Budget Honesty Policy Costing Guidelines*, Issued jointly by the Secretaries to the Treasury and the Department of Finance under Part 8 of the *Charter of Budget Honesty Act 1998* (<https://www.finance.gov.au/sites/default/files/charter-of-budget-honesty.pdf>)

²⁰ Since the creation of the Parliamentary Budget Office (PBO) in 2012, any parliamentary party or sitting independent member seeking re-election may request the PBO to cost election policy commitments. The PBO, which was established as a parliamentary department to provide independent analysis of fiscal policy and the financial implications of proposals, must use the costing methods and conventions recommended in the Policy Costing Guidelines.

²¹ <http://www.ncoa.gov.au/report/phase-one/part-b/5-3-budget-reporting-and-the-charter-of-budget-honesty.html>

²² <https://theconversation.com/time-to-rethink-the-charter-of-budget-honesty-37851>

²³ <http://theconversation.com/why-biased-budget-forecasts-make-poor-politics-76945>

problem is that fiscal indicators that are used in fiscal targets tend thereby to become less accurate as indicators. Thus, it is essential to have alternative indicators of fiscal performance and fiscal position.²⁴

However, most pundits concentrated on relatively simplistic notions of 'debt' and 'deficit' which precluded more nuanced public discussions about economic strategy and structural issues. This was only partly down to the media, as academic and political commentator Peter Van Onselen observed: 'A series of prime ministers and treasurers had downgraded the quality of economic debate in Australia by making budget deficit or surplus a measure of government economic management when the surpluses and deficits of this century have been almost entirely a measure of the mining boom and bust.'²⁵ Although high debt levels were unequivocally negative, especially in a volatile global economy, there was no clear consensus about the point at which national debt levels become unsustainable.²⁶ Moreover, an excessive fixation on debt reduction could stall economic growth and prevent necessary infrastructure investments.

From 'no cuts' to budget crisis

During the campaign leading up to the September 2013 election, Tony Abbott emphasized the importance of governments being upfront with their plans and sticking to their commitments: 'The great thing about the Coalition is you know exactly what you will get from the Coalition ... We will be a consultative, collegial government. No surprises. No excuses.'²⁷ By way of example, Abbott frequently cited the Labor Government's reversal of its no-carbon tax policy as prime evidence of its unfitness to govern: 'Nothing could be more calculated to bring our democracy into disrepute and alienate the citizenry of Australia from their government than if governments were to establish by precedent that they could say one thing before an election and do the opposite afterwards.'²⁸ During a pre-election press conference, he also made the following assurances:

REPORTER: "The condition of the budget will not be an excuse for breaking promises?"

TONY ABBOTT: "Exactly right. We will keep the commitments that we make. All of the commitments that we make will be commitments that are carefully costed."²⁹

Abbott's commitments included matching Labor's Gonski pledge (see page 3), stating: 'As far as school funding is concerned, Kevin Rudd and I are on a unity ticket. There is no difference between Kevin Rudd and myself when it comes to school funding'. At the same time, Abbott consistently repeated that, if elected, his government would work to lower or abolish taxes: 'I am absolutely determined not to increase the overall tax burden on anyone'.³⁰ Most of the then-Opposition platform, however revolved around three main policies, distilled into looping slogans: keeping refugee vessels out of Australian waters ('Stop the boats'); repealing the carbon tax ('Axe the tax'); and reducing the budget deficit ('Repay the debt').³¹ They offered little policy detail, especially about economic policies, and though the electorate was tired of the Labor Party's rancorous leadership dramas,³² there was concern about how the LNP proposed to bring debt down. When pressed by SBS Television's Anton Enus on election eve about potential savings, Abbott declared: 'I trust that everyone has listened to what Joe Hockey said this week, and last week: No cuts to education, no cuts to health, no change to pensions, no change to the GST and no cuts to the ABC and SBS'.³³ 'Oh no!'

²⁴ IMF Staff Discussion Note March 28, 2012 SDN/12/02 *Accounting Devices and Fiscal Illusions* Timothy C. Irwin.

²⁵ Errington, W. And Van Onselen, P. *Battleground: why the Liberal Party shirtfronted Tony Abbot*, Melbourne University Press 2015, p.90.

²⁶ http://www.ncoa.gov.au/report/docs/appendix_volume%201.pdf

²⁷ <https://www.themonthly.com.au/blog/russell-marks/2014/05/27/1401138538/tony-abbott-said>

²⁸ <http://www.abc.net.au/news/2014-05-01/fact-file-what-tony-abbott-promised-on-tax/5420226>

²⁹ <https://www.themonthly.com.au/blog/russell-marks/2014/05/27/1401138538/tony-abbott-said>

³⁰ <http://www.abc.net.au/news/2014-05-01/fact-file-what-tony-abbott-promised-on-tax/5420226>

³¹ <http://www.abc.net.au/news/2015-08-21/quiggin-abbotts-economic-quandary/6714896>

³² Prime Minister Kevin Rudd was deposed by Deputy Julia Gillard in 2010 to be reinstated in 2013.

³³ <http://www.sbs.com.au/news/article/2013/09/06/no-cuts-abc-or-sbs-abbott>

Hockey reportedly exclaimed as he watched on in dismay.³⁴ Although Hockey had himself made similar statements, he had used more circumspect language, noting that a Coalition government would establish a Commission of Audit to review all Commonwealth spending and trim any excess.³⁵ Not that it mattered now.

During his election night victory speech in 2013, Abbott talked again about trustworthiness. But seemingly moments later, the new Government began 'walking back' some of its key commitments and wavering on others. While voters were accustomed to politicians breaking promises, the number and speed of the Government's about-turns stunned even seasoned observers. Just a few months after taking office, media outlets had already tallied dozens of policy reversals or changes.³⁶ But there had been hints throughout the campaign that some promises were less than rock-solid. For example, asked how the Government would achieve a surplus while simultaneously lowering or abolishing taxes, Abbott had replied: 'sensible expenditure restraint'.³⁷ He also said that '[t]he Coalition believes in lower, simpler, fairer taxes, it is in our DNA, but we have got to get the budgetary position under control and the trouble is that this Government has got a budget emergency on its hands'.³⁸ Hockey had been even more explicit about the 'debt and deficit crisis', which he blamed on Labor's profligacy, and the pressing need to scale back spending and target 'waste' – subject to the results of a Commission of Audit inquiry.³⁹ Savings would, in theory, be poured back into frontline delivery. The Government had already taken its shears to the public sector, shuttering, merging or reviewing numerous agencies and bodies including the Climate Commission.⁴⁰

The Commission of Audit (CoA), led by Business Council of Australia president Tony Shepherd AO, publicly released its report *Towards Responsible Government* in April 2014. Assigned to find savings across the Commonwealth portfolio of services and examine the sustainability of fiscal strategy, it found that Australia faced 'a substantial budgetary challenge – the fiscal situation is far weaker than it should be and the long-term outlook is ominous due to an unsustainable increase in expenditure commitments'.⁴¹ The CoA recommended cuts, caps or restrictions to benefits across 15 main areas of Commonwealth spending, including health, unemployment, disability support, aged care and child care. Said the report: '...the Commission has been guided by the importance of fairness, recognising that fairness has a strong relationship to our sense of confidence and our ability to work together effectively'.⁴²

One of the most controversial proposals was the Medicare co-payment. The CoA report outlined the burgeoning costs of the \$19 billion Medicare Benefits Schedule, costs which were expected to grow by 7.1 per cent per annum to 2023-24 thanks to increased use of medical services, along with population growth and ageing. A co-payment of \$5 or \$15, depending on income, was suggested; co-payments would be discounted after patients exceeded the national average of 15 rebated services per year.⁴³ The CoA argued that co-payments would send an important 'price signal' to consumers and 'may reduce demand for unnecessary or overused services'.⁴⁴ Said the report: 'Where a third

³⁴ Errington, W. And Van Onselen, P. *Battleground: why the Liberal Party shirtfronted Tony Abbott*, Melbourne University Press 2015, p.12.

³⁵ Errington, W. And Van Onselen, P. *Battleground: why the Liberal Party shirtfronted Tony Abbot*, Melbourne University Press 2015, p.12.

³⁶ Including an aversion to debt. In October 2013 Hockey secured parliamentary support to remove restrictions on the total debt that can be issued by the Australian Government. The so-called 'debt ceiling' was raised from \$300 billion to \$500 billion in January 2014.

³⁷ <http://www.abc.net.au/news/2014-05-01/fact-file-what-tony-abbott-promised-on-tax/5420226>

³⁸ Ibid.

³⁹ <http://www.abc.net.au/7.30/content/2013/s3842285.htm>

⁴⁰ <http://www.news.com.au/national/commonwealth-agencies-to-be-cut-by-abbott-government/news-story/aeecff78818216f9ab5b5a158aef618>

⁴¹ <http://www.ncoa.gov.au/report/index.html>

⁴² <http://www.ncoa.gov.au/report/index.html>

⁴³ Ibid

⁴⁴ Ibid

party, such as the government or an insurer, is paying for a service, moral hazard can lead providers and consumers to use more services than would otherwise be demanded. Moreover, when consumers are not faced with paying the costs associated with these services, they have little incentive to limit the use of these services'.⁴⁵ However, the CoA did not provide much data about inappropriate use of medical services beyond referencing a Grattan Institute report which found that:

Increases in health expenditures are primarily driven not by an ageing population, but by people of all ages seeing doctors more often, having more tests and operations, and taking more prescription drugs, often employing new and effective treatments. These changing practices are costing more per person ... The increased expenditure appears to be having an impact. Life expectancy, particularly for those aged over 65, has increased rapidly and consistently over the last 40 years. However, it has come at a cost.⁴⁶

The co-payment and many other CoA recommendations were incorporated into the 2014 Budget. The CoA also had advice regarding broader fiscal strategy and budget reporting:

The Commission considers that retaining the central elements of the broad fiscal strategy, which have been in place for nearly two decades, is warranted as this will promote stability and consistency in Australia's overall fiscal framework. However, steps are needed to ensure that the fiscal strategy is successfully executed (or 'operationalised'). This requires a more prescriptive approach by establishing a new set of operational rules that will better frame fiscal policy choices and enable a better and more transparent assessment of governments' fiscal performance.⁴⁷

Specifically, the CoA recommended the Government adopt 'a high-level fiscal strategy which seeks to achieve underlying cash surpluses, on average, over the cycle; improve the government's balance sheet over time; and limit the size of government, as a proportion of GDP'. To do so, the Government should follow a suite of fiscal rules setting out how the fiscal strategy would be achieved year-by-year:

- achieve a surplus of 1% of GDP by 2023-24,
- substantially reduce net debt over the next decade, and
- ensure taxation receipts remain below 24% of GDP.⁴⁸

Other recommendations included making changes to budget reporting and enhancing the Charter of Budget Honesty (*Exhibit C*). An amendment to the *Charter of Budget Honesty Act* was also suggested, requiring the Parliamentary Budget Office to report progress against the government's medium-term fiscal strategy, following the release of the Final Budget Outcome each year.⁴⁹

Poor people don't drive?

Soon after presenting his Budget, Hockey fronted ABC Television's 7.30 for an interview.⁵⁰

SARAH FERGUSON: Now, you've just delivered that Budget. It's a Budget with a new tax, with levies, with co-payments. Is it liberating for a politician to decide election promises don't matter?

JOE HOCKEY: Well, I don't accept that question. The biggest, most significant promise we made was to fix the Budget and strengthen the Australian economy and we will. This Budget does that.⁵¹

Prominent economists were unconvinced. They supported a gradual return to surplus, warning that severe cuts would hamper economic growth. They recommended medium- to long-term structural reform rather than quick fixes such as the temporary high-income deficit levy. 'Most countries would be envious of Australia's public finances as they currently stand,' said Kieran Davies, Barclays Australia

⁴⁵ *ibid*

⁴⁶ https://grattan.edu.au/wp-content/uploads/2014/04/187_budget_pressures_report.pdf

⁴⁷ http://www.ncoa.gov.au/report/docs/appendix_volume%201.pdf

⁴⁸ <http://www.ncoa.gov.au/report/index.html>

⁴⁹ http://www.ncoa.gov.au/report/docs/appendix_volume%201.pdf

⁵⁰ Following complaints, Ferguson's interview was investigated and though cleared of bias, the tone of questioning was considered potentially disrespectful.

⁵¹ <http://www.abc.net.au/7.30/content/2014/s4003968.htm>

Chief Economist, who noted that the budget deficit was minimal compared to other OECD countries (*Exhibit D*).⁵² 'We don't need a surplus tomorrow. We don't even necessarily need it in five years' time,' said Chris Richardson of Deloitte Access Economics (and former Treasury official). 'I'm more than happy with us getting back to sustainable fiscal finances over the long term. The politics would tend to suggest moving earlier rather than later but on the economics there's no rush'.⁵³ Certain measures, such as the Medicare co-payment, were viewed as counterproductive since discouraging the sick from seeking timely primary health care tended to cause bigger, costlier problems.⁵⁴ The most frequent users of primary health care tended to be people in poor health living in disadvantaged areas; for these users, even a small co-payment had the potential to make a large difference in their ability to access treatment.⁵⁵ Moreover, OECD data showed Australia's total health spending accounted for 8.9% of GDP, just below the 9.3% OECD average, while a Bloomberg survey ranked Australia's health care system the seventh most efficient in the world.⁵⁶ Meanwhile, the Government's creation of a \$20 billion Medical Research Future Fund (see Page 2) seemed inconsistent with the notion of a budget crisis.

Some economists and commentators were more approving of the Government's approach to fiscal restraint but highly critical of its framing. Wrote ABC business editor Ian Verrinder:

From an economist's viewpoint, the general thrust of last night's federal Budget was entirely justifiable if the nation's finances are to be put on a sustainable path. There was no way it could be done without tax hikes and without spending cuts ... But the faux justification and the laughable spin that led to last night's show – from the confected debt crisis, the feigned shock of a budget shortfall and the untruths about the underlying causes for the deficit – only adds to disenchantment within the electorate about the cynicism that now pervades federal politics ... In this case, there is no doubt the stimulus spending of the Rudd years pushed outlays higher. And the commitments during the Gillard years on education and disability insurance will further strain expenditures into the future. The real culprit, however, for the budget deterioration since 2008 has been a dramatic shortfall in revenue, most of which can be sheeted home to the extended series of income tax cuts of the Howard era. You won't hear any talk of that. It's been excised from the annals.⁵⁷

Nor was there much mention from the Government of the chief reason for Labor's stimulus measures: to avert a major recession after the Global Financial Crisis. Given the focus on economic discipline and curbing entitlements, many of the same economic experts also wondered why the government didn't tackle 'tax expenditure' issues such as negative gearing, capital gains tax discounts and superannuation tax concessions for high income earners which could have yielded substantial savings.⁵⁸ Negative gearing enabled property investors to offset losses against their other income, and was a lightning rod for discussions of equity given that it tended to advantage those with substantial incomes and/or assets. Along with the reduction in capital gains tax in 1999, it was seen by some analysts as a significant contributor to rising house prices and the declining rate of participation by first home buyers in the housing market.⁵⁹ The CoA also made a number of revenue-saving suggestions not taken up, including capping the Paid Parental Leave scheme at average weekly earnings.

⁵² <http://www.smh.com.au/federal-politics/political-news/economists-sceptical-of-abbotts-budget-emergency-20140430-zr1uo.html>

⁵³ <http://www.smh.com.au/federal-politics/political-news/economists-sceptical-of-abbotts-budget-emergency-20140430-zr1uo.html>

⁵⁴ <https://theconversation.com/mind-the-gap-6-gp-visit-proposal-ignores-the-evidence-21754>

⁵⁵ <https://theconversation.com/time-for-policy-rethink-as-frequent-gp-attenders-account-for-41-of-costs-38966>

⁵⁶ <http://www.sbs.com.au/news/article/2014/02/20/how-does-australias-medicare-compare>

⁵⁷ <http://www.abc.net.au/news/2014-05-14/verrender-why-couldnt-they-just-be-straight-with-us/5451344>

⁵⁸ <http://www.smh.com.au/federal-politics/political-news/economists-sceptical-of-abbotts-budget-emergency-20140430-zr1uo.html>

⁵⁹ <http://www.abc.net.au/radionational/programs/lifematters/is-negative-gearing-responsible-for-soaring-house-prices/5903778>. The problem was most acute in Australia's two largest cities, Sydney and Melbourne.

The public reaction to the Budget was one of instant and visceral dislike. Social media reflected the darkening mood of a nation in real-time.⁶⁰ Proposals such as the plan to make many unemployed under-30s wait six months before claiming benefits were particularly unpopular. An overall perception that the young, elderly, poor and infirm would bear the brunt of tax increases and spending cuts was validated by post-budget analyses. A National Centre for Social and Economic Modelling analysis found that low-income families would be especially hard hit, while top earning families would be largely better off.⁶¹ This was echoed by Australian National University research which calculated that a single parent on the parenting payment who had one child aged six would lose 10% of their real disposable income by 2016-17.⁶² Treasury figures released to the *Sydney Morning Herald* also showed a disproportionate impact: 'The Treasury analysis reveals the spending cuts cost an average of \$842 a year for lower income households, while the average high income family lost just \$71. Middle income families were down \$477.'⁶³ Since 2004, the Budget had included tables modelling the impact of the Budget on different income groups; this year, they had been left out.

The Government's decision to impose a 12-month freeze on politicians' salaries and to discontinue gold-card travel entitlements for parliamentarians in retirement did little to mollify voters. A Galaxy poll also found that 75% of respondents thought that the Budget had left them worse off, while 54% of Nielsen poll respondents believed that the Budget would not be good for the country.⁶⁴ Even Liberal/National voters were unenthused; just over 40% approved of the Budget when it was handed down.⁶⁵ Comparisons to previous Budgets also revealed Budget 2014 to be the least popular in decades and one that was widely considered unfair.⁶⁶ Hockey's characterization of 'lifters' and 'leaners' was considered divisive and challenged in the media.⁶⁷ Meanwhile, the Prime Minister's ongoing unwillingness to admit that the Government had breached election commitments didn't help his personal standing.

By contrast, the business community was more upbeat about the Budget. It welcomed many of the measures, though a sharp slide in consumer confidence was a concern.⁶⁸ However, other groups, such as conservative think-tank the Institute of Public Affairs, were disappointed the Budget hadn't gone further, noting that spending was actually going up in the short term since the biggest savings measures weren't due to come into effect until after the next election.⁶⁹ It all made for a rather confusing and contradictory economic narrative.⁷⁰ The States and Territories (mostly LNP-led) were angered by the Budget in general and healthcare cuts in particular. They anticipated that measures such as the Medicare co-payment would divert more patients to already overstretched hospitals. Lining up with the State Premiers against key Budget measures was the Federal Labor Opposition.

With the electorate and a lengthy list of stakeholders decidedly offside, Government ministers took to the media to talk up the Budget. Abbott and Hockey maintained that they had a mandate and an obligation to repair the nation's finances by any means necessary, and the public continued to disagree. Several gaffes didn't help their case. Appearing on talkback radio, Abbott came in for heavy criticism when he appeared to make light of a pensioner's claims that she had become a phone-sex

⁶⁰ <http://www.abc.net.au/news/2014-05-14/budget-2014-live-blog-reaction-to-hockeys-first-budget/5450668>

⁶¹ <https://theconversation.com/low-earners-do-most-in-budget-lifting-says-natsem-modelling-26981>

⁶² <http://www.smh.com.au/federal-politics/political-news/budget-cuts-hit-lowest-income-earners-hardest-says-treasury-20140803-zzwhz.html>

⁶³ Ibid.

⁶⁴ <https://www.theguardian.com/world/2014/may/19/abbott-government-suffers-significant-slump-in-polls>

⁶⁵ <http://essentialvision.com.au/?s=budget+2014&searchbutton=Search>

⁶⁶ <http://www.news.com.au/finance/economy/federal-budget/australians-think-federal-budget-2014-is-the-worst-in-a-very-very-long-time-according-to-this-graphic/news-story/3aede549c1cfe0db6eb3fc205feaba53>

⁶⁷ <https://www.theguardian.com/commentisfree/2014/jun/18/treating-australians-as-parasitic-leaners-is-a-grave-mistake>

⁶⁸ <http://www.smh.com.au/business/the-economy/federal-budget-sinks-consumer-confidence-20140520-38l08.html>

⁶⁹ <http://www.smh.com.au/comment/budget-wont-slow-government-spending-20140515-zreek.html>

⁷⁰ Errington, W. And Van Onselen, P. *Battleground: why the Liberal Party shirtfronted Tony Abbot*, Melbourne University Press 2015, p.89.

operator because she couldn't survive on her meagre income.⁷¹ A few months later, Education Minister Christopher Pyne argued that women would not be disproportionately disadvantaged by university fee hikes because they were less likely to study high-fee courses such as law and dentistry.⁷² Critics pointed out that the majority of law and dentistry students are female.⁷³ Hockey contended that the excise increase on petrol would not significantly impact those on low incomes because '[t]he poorest people either don't have cars or actually don't drive very far in many cases'.⁷⁴ His statement was based on a misreading of Australian Bureau of Statistics data but Hockey's apology for his 'insensitive' choice of words only reinforced the impression that the Government was, at best, removed from the realities of everyday Australians.

Party-room gloom

The mood inside Government wasn't much better. Anxious Coalition MPs, particularly those in marginal seats, worried that the Government was rapidly depleting its hard-won electoral capital. However, Abbott and his Chief of Staff, Peta Credlin, were not particularly receptive to feedback. Many MPs had difficulties getting hold of the PM or found their observations were unwelcome.⁷⁵

A formidable team in opposition, Abbott and Credlin were now foundering in government. Years relentlessly focussed on the Labor Government's missteps hadn't been matched by a similar focus on policy development. The Prime Minister's main contribution was developing his Paid Paternity Leave (PPL) scheme, which originally proposed paying 6 months of the primary carer's wage, up to \$150,000 per annum. It was far more generous than the Labor alternative, a non-income indexed payment based on the minimum wage, and devised with the intent of winning over female voters, many of whom disliked Abbott's retrogressive social views. Both moderate and conservative government MPs were dismayed, however, by such a generous proposal when the Government were so explicitly trying to rein in spending but it was one commitment Abbott wanted to keep.⁷⁶

According to colleagues, Abbott had little passion or affinity for economic policy⁷⁷ yet insisted on shadowing Hockey throughout Budget preparations.⁷⁸ Meanwhile Credlin, who was rarely far from Abbott's side, was more occupied with staffing appointments than policymaking – even overseeing junior hires.⁷⁹ Existing staff were also in her sights. She and the PM viewed Martin Parkinson (Treasury Secretary since 2011) with suspicion, despite a multi-decade career working successfully with Labor and Coalition governments.⁸⁰ Against the advice of former Prime Minister John Howard and ex-Treasurer Peter Costello, Abbott and Credlin decided to remove Parkinson soon after the election, though a good working relationship with Hockey delayed his planned departure.⁸¹ Parkinson recalled Abbott's strategy to return the budget to surplus: 'He [the PM] honestly thought that Labor's internal machinations had led to a crisis of confidence in the economy and now that the "adults were back in charge" people would naturally just open up their wallets again. He thought that simply by getting elected he'd see a natural bounce in GDP growth and Government revenues'.⁸²

⁷¹ <http://www.news.com.au/finance/money/budgeting/tony-abbott-caught-on-camera-winking-and-smiling-when-confronted-over-budget-by-sex-line-worker/news-story/0b1615cd83ff16028e6743c7a1b48f63>

⁷² <http://www.abc.net.au/7.30/content/2014/s4062352.htm>

⁷³ <http://www.mamamia.com.au/christopher-pyne-deregulation/>

⁷⁴ <http://www.abc.net.au/news/2014-08-15/joe-hockey-poor-people-cars-claim-misleading/5671168>

⁷⁵ Errington, W. And Van Onselen, P. *Battleground: why the Liberal Party shirtfronted Tony Abbot*, Melbourne University Press 2015, pp.123-155.

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ Ibid, p.89.

⁷⁹ Ibid, p.18.

⁸⁰ Crosby, C. *The Trust Deficit*, Melbourne University Press 2016, pp.48-75.

⁸¹ <http://www.smh.com.au/federal-politics/political-news/tony-abbott-ignored-john-howards-advice-on-sacking-treasury-secretary-martin-parkinson-20140311-34kg1.html>

⁸² Crosby, C. *The Trust Deficit*, Melbourne University Press 2016, pp.48-75.

Nonetheless, Parkinson saw value in the CoA process and devoted Treasury resources to assist with the task: 'People needed to understand what was structurally wrong with the [economy]. We thought that the [CoA report] could help with that process, and wanted to make it work. The substance of the report is very good and could have helped improve public understanding and build support for change if there had been time allowed between its release and the resulting Budget'.⁸³ Both Parkinson and Hockey appealed to the Prime Minister's Office to publicly release the CoA report earlier but the Office sat on the document until April 2014, only a month before the Budget. Credlin also reportedly wanted references to health funding cuts excised from the 2014 Budget since they wouldn't be legislated before 2016. Hockey restored them at the last minute.⁸⁴

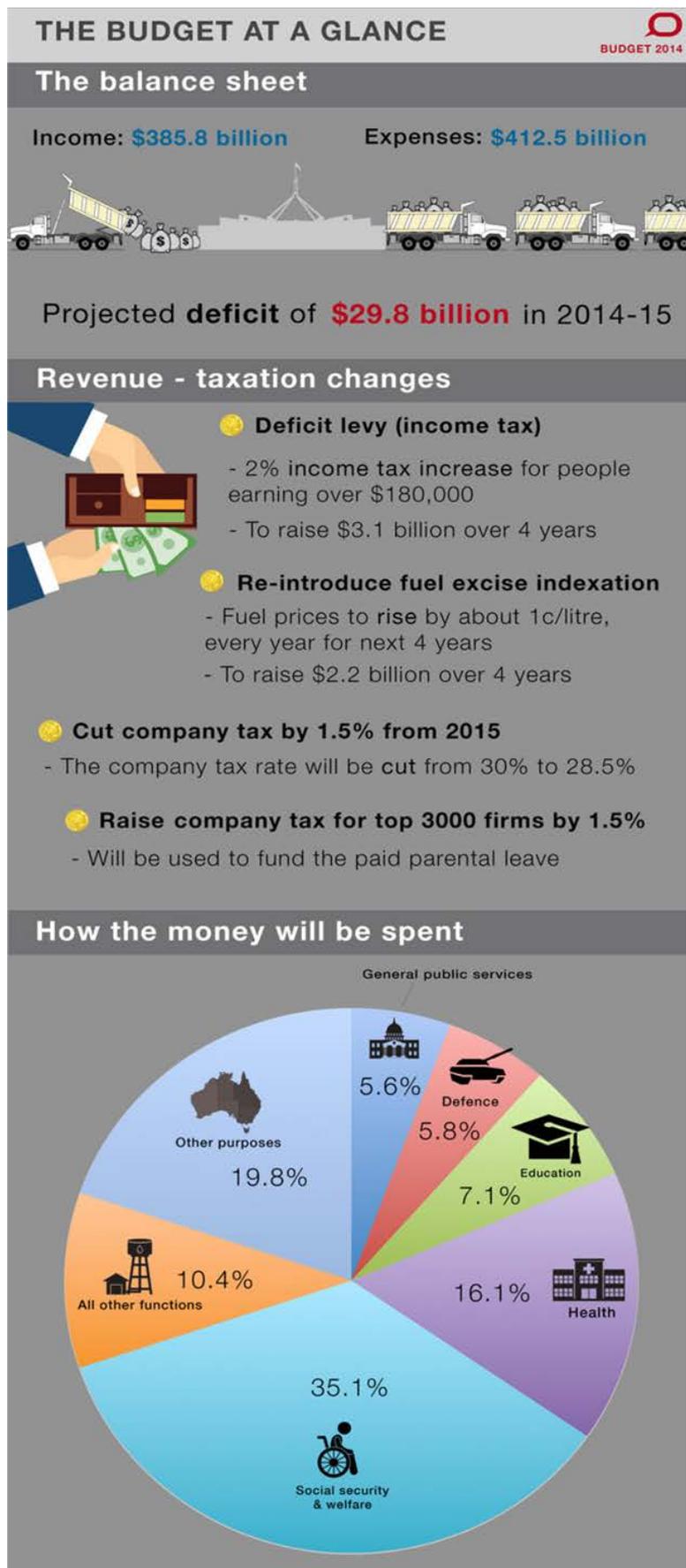
Winning over the public, though, could wait. At least temporarily. The more pressing concern was convincing the Senate to pass the Budget. Election 2013 had thrown up some unexpected results, handing micro-parties and independents the balance of power. The new intake of senators took their seats in Parliament in July 2014 but so far Abbott and Hockey had made few overtures towards their fellow Members, assuming they would be largely on board.⁸⁵ It would prove a costly miscalculation.

⁸³ Ibid

⁸⁴ Errington, W. And Van Onselen, P. *Battleground: why the Liberal Party shirtfronted Tony Abbot*, Melbourne University Press 2015, pp.123-155.

⁸⁵ Errington, W. And Van Onselen, P. *Battleground: why the Liberal Party shirtfronted Tony Abbot*, Melbourne University Press 2015, p.115.

Exhibit A: Budget Summary



Major spending initiatives



- ✂ **Infrastructure funding**
 - * \$11.6 billion for infrastructure to be built with states
 - * Includes \$5 billion for asset recycling
- ✂ **New paid parental leave scheme**
 - * Payments of up to \$50,000

✂ **Emissions Reductions Fund (direct action)**

- * Costing \$1.1 billion in first four years

✂ **Defence** - bring forward \$1.5 billion in spending from 2017-18

- * Defence spending will increase from 1.7% of GDP to 1.8% of GDP

✂ **Border protection** - \$711 million over 6 years for border management

✂ **A wage subsidy for mature aged workers**

- * Called RESTART, employers who hire an eligible mature aged worker will be paid a subsidy of \$10,000 over 24 months

Major saving initiatives (ie. the cuts)

Healthcare

- ✂ Introduction of a \$7 Medicare co-payment for GP visits and pathology
- ✂ Increase cost of pharmaceutical medicines
- ✂ **Reduced funding to hospitals** over next 10 years, mainly through change in indexation

Families

- ✂ **Tightening Family Tax Benefit B eligibility**
 - Limit to families with children under 6
- ✂ Freeze Family Tax payment rates for 2 years

Unemployed

- ✂ **Six-month wait for jobseekers under 30**
 - Jobseekers need to participate in job search activities for six months before receiving Newstart or Youth Allowance payments
- ✂ **New work-for-dole scheme for unemployed under 30**
- ✂ **Income support for 6 months only for under-30's**

Pensioners

- ✂ Increase Age Pension eligibility age to 70 by 2035
- ✂ Cessation of Seniors Supplement

Education

- ✂ **Higher Education fees** will be deregulated from 2016
- ✂ **Abolish apprenticeship incentives program**
- ✂ **Reduced funding to schools** over next 10 years, mainly through change in indexation

Disabled

- ✂ **Tightening of Disability Support Pension**
 - * DSP recipients under 35 will be reassessed
- ✂ **Disability support will be indexed to inflation (not wages)** - leading to lower payments

Foreign Aid

- ✂ **Cut foreign aid funding by 7.9 billion over 5 years**

Source: <https://theconversation.com/infographic-federal-budget-at-a-glance-26658>

Exhibit B: Underlying cash balance MYEFO versus PEFO figures (\$ billions)

	2013-14	2014-15	2015-16	2016-17	Total
PEFO (August 2013)	-30.1	-24	-4.7	4.2	-54.6
MYEFO (December 2013)	-47	-33.9	-24.1	-17.7	-122.7
Difference	-16.9	-9.9	-19.4	-21.9	-68

Source: <http://www.abc.net.au/news/2014-05-06/has-the-government-doubled-the-budget-deficit/5423392>

Exhibit C: Commission of Audit budget reporting recommendations

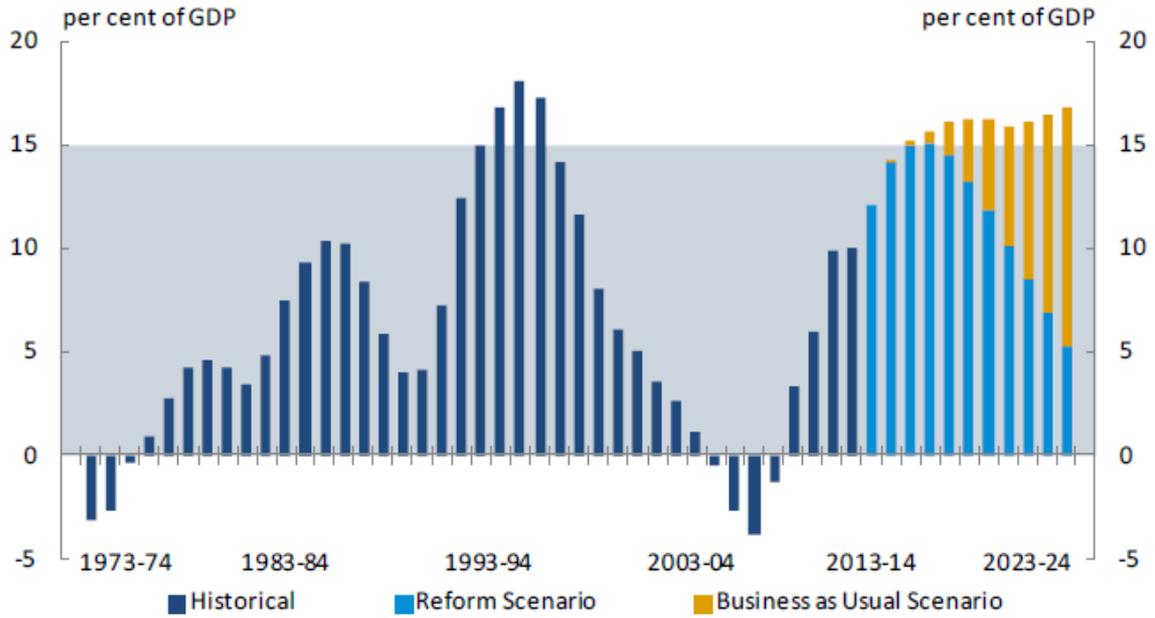
Recommendation 6: Budget reporting and the Charter of Budget Honesty

Budget transparency allows for a more informed debate about the state of the Budget and fosters accountability. The Commission recommends improvements to the transparency of fiscal processes and budget reporting by requiring that:

- a. fiscal updates set out projections for key budget aggregates for 10 years beyond the Budget year;
- b. the Intergenerational Report be prepared within a specified period after the release of the National Census and that it be extended to also include analysis of the long-term sustainability of State and Territory budgets;
- c. fiscal updates should compare key economic forecasts and relevant consensus forecasts;
- d. sensitivity analysis in budget documents be improved;
- e. the Budget Process Operational Rules be released to enhance public understanding of how budgets are framed; and
- f. the Budget documentation give particular prominence to:
 - the underlying cash balance;
 - the Commonwealth's net debt position; and
 - the net financial worth of the Commonwealth.

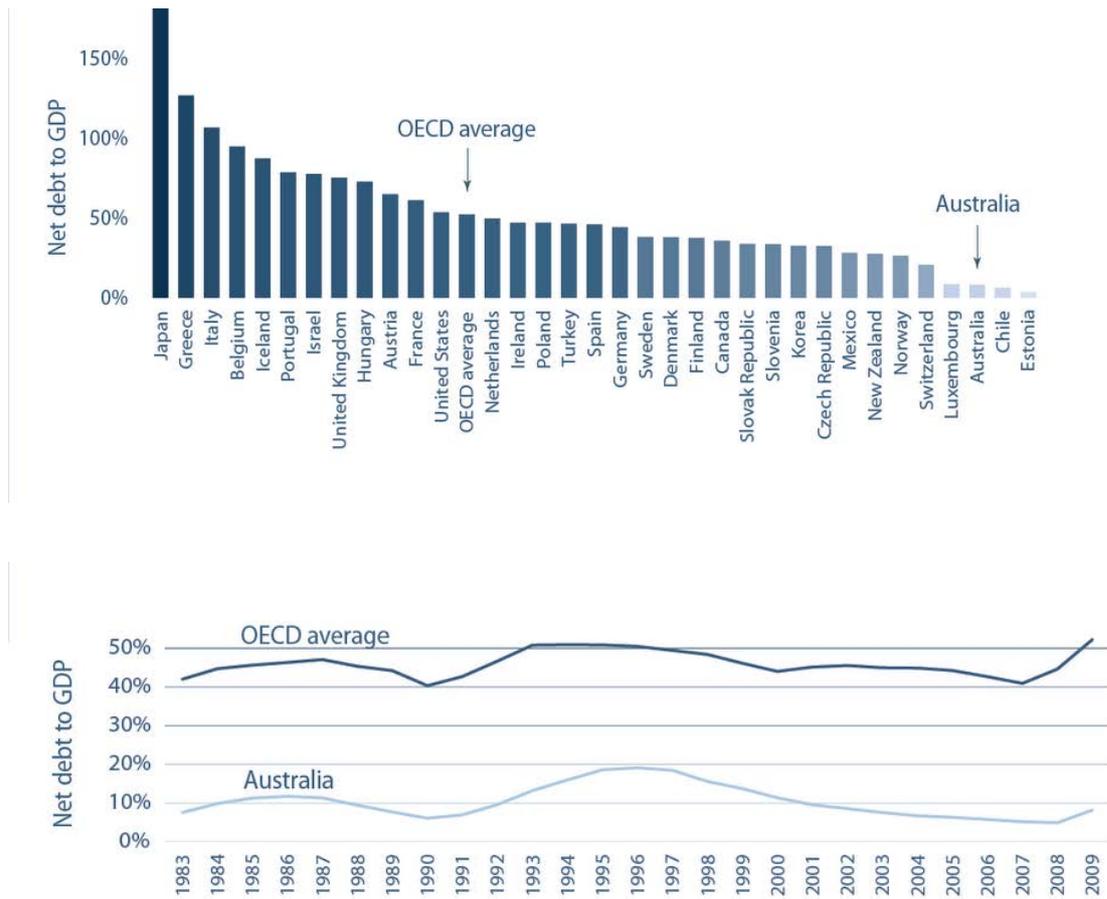
Source: <http://www.ncoa.gov.au/report/phase-one/>

Exhibit D: Government net debt, and Australia net debt compared to OECD



Source: Australian Government, 2013 and National Commission of Audit.

Source: http://www.ncoa.gov.au/report/docs/appendix_volume%201.pdf



NB: Charts use latest complete OECD figures from 2009.

Source: <http://www.factsfightback.org.au/how-big-is-australias-debt-check-the-facts/>