

THE COALITION'S

# Plan to pay off Labor's Debt

PROTECTING AUSTRALIA'S FUTURE BY STOPPING THE RECKLESS SPENDING

**THE NATIONALS**





“History tells us it has been the job of our side of politics to rebuild the damage done by Labor governments. It is only a Coalition Government that can manage our public finances properly and restore the nation to prosperity.”

Malcolm Turnbull, Leader of the Opposition, 17 July 2009

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## Summary

Labor wants to take Australia along the path of a record level of debt. In the 2009 Budget, Labor's plan was to reach \$315 billion in debt by 2013-14. The greater than expected strength of the Australian economy (thanks to the coalition's economic legacy) will significantly reduce this figure, perhaps by as much as a quarter, to around \$240 billion. But this will still be a record level of unnecessary debt.

And yet Labor's plan is to increase the relative size of Commonwealth government spending by one fifth: from 24.0% of GDP in 2007-08 to 28.6% in 2009-10. If Labor's spending plan is delivered, government spending will still be 26.4% of GDP in 2012-13.

The Treasurer has confirmed that Labor is committed to pressing ahead with its spending plan even though, in his own words on 31 August 2009, "the economy is growing and it is growing strongly".

If the Government does not reduce its debt-funded spending plans it will create a larger debt burden than was left by the previous Labor Government in 1996. This burden will be costly to service and painful to repay.

Worse, the debt will be incurred to fund a continuation of Labor's ill-considered and wasteful spending program.

And with stronger economic growth than forecast in the Budget, continued high government spending and higher debt will push up interest rates, reducing private investment, undermining economic growth, and placing unnecessary pressure on home buyers.

The first step towards higher interest rates has already been taken with the Reserve Bank raising the cash rate on 6 October and clearly signalling that more rises are to come.

Government spending over the next four years must be reduced and the slide into record public debt must be prevented.

The Coalition believes that more needs to be done if the debt path envisaged by Labor is to be avoided and the damage done by Labor to Australia's public finances is to be repaired.

# 1 Labor's Debt Path

Labor's claim that its planned deficits and accumulating debt are responsible and necessary is simply not true.

## 1.1 Too Much Debt

The budgeted levels of deficit and debt are too high.

In May 2009, Labor budgeted for a \$58 billion deficit in 2009-10. In 2012-13 Labor would still have a deficit of \$28 billion. Gross debt would increase to \$315 billion in 2013-14 or over \$13,000 for every Australian. Annual interest payments to service the debt would be about \$13 billion or about \$550 for every Australian.

The financial position we enjoyed in 2007-08 of having \$45 billion in the bank, which provided such an important financial buffer in the present downturn, would not be regained until after 2022.

This was Labor's plan even though the Budget papers showed that the economic downturn in Australia would soon be well and truly over. According to the Budget papers, "recovery in the Australian economy is expected to gather pace in 2010". Real GDP will grow at a respectable 2.25% in 2010-11 and at a hefty 4.5% in 2011-12 and 2012-13, followed by four more years of above trend growth. Employment is assumed to grow in line with these forecasts.

While the Government claims that it has been forced into unprecedented levels of government spending and debt by the global financial crisis, it intends to keep adding to the debt burden well after any reason for doing so has expired.

This point has been made clearer still since the May 2009 budget as economic information and analysis suggest that the economic downturn in Australia will be shorter and shallower than forecast.

By the standards of past recessions, such as those in the early 1980s and early 1990s, this is a mild downturn for Australia, far from the cataclysmic and unprecedented crisis the Rudd government has claimed to justify its profligacy.

A stronger than expected economy will help reduce deficit and debt levels below those forecast in the Budget. Peak debt could be reduced by as much as a quarter, to around \$240 billion. But this will still see the rapid accumulation of large and unnecessary debt as Labor seems unlikely to change its plan to dramatically increase spending.

Government spending as a percentage of GDP will be 28.6% in 2009-10 compared with 24.0% in 2007-08. Under Labor it is likely that a return to financial health will only be achieved by raising taxes to meet permanently higher expenditure.

As discussed below, Labor's spending plan is an irresponsible approach to financial and economic management in the short term. Worse still, it shows no regard for long term problems such as the rising health care and retirement costs of an ageing population. These underlying changes will make it harder to maintain economic growth and add considerable pressure to the Australian Government's financial position.

## 1.2 More Government Waste

The quality of spending financed by Labor's debt has been poor and this is likely to continue.

The benefits of Labor's \$23 billion in cash splashes are small and temporary while the costs will continue for years. Criminals in jail and Australians living overseas have received cash payments. In December 2008, cash bonuses were sent to 69,000 pensioners living overseas.

The Building the Education Revolution program has paid top dollar for facilities that in many cases have limited educational value. In the process, the Primary Schools for the 21st Century sub-program has blown out by \$1.7 billion. This follows on the heels of the \$1.2 billion blow out of the Computers in Schools program.

Millions of stimulus dollars are being spent on overseas supplied home insulation batts. Despite ramping up their production plants to 24/7 operations, Australia's biggest manufacturers of insulation batts are still having to go overseas to meet up to 30% of their total orders.

Labor's cost for the switch from analogue to digital television has increased dramatically. The budgeted cost of communications and advertising over the next three years has risen from an estimated \$16 million to \$66 million despite Labor's Communications Minister, Stephen Conroy, promising before the last election to slash \$22 million from the cost of the switchover.

Labor promised in 2007 to invest \$4.7 billion to establish in five years a National Broadband Network in partnership with the private sector. The NBN is now a \$43 billion project over 8 years with an unknown cost to the Australian public because the government is proceeding without analysis of the cost or customer take-up.

## 1.3 Higher Interest Rates and Lower Economic Growth

Macroeconomic stimulus is a function of both fiscal and monetary policy. Where the combined effect of these two arms of policy is overly stimulatory, there is a choice as to which arm of policy should be tightened. Fiscal policy stimulus can be reined in by the government through reduced spending or higher taxes. Monetary policy can be tightened by the Reserve Bank through higher interest rates.

The Reserve Bank raised the cash rate on 6 October by 0.25% and clearly signalled that more interest rate rises are to come. According to the Bank, it is now prudent to reduce “the stimulus provided by monetary policy”. This decision would undoubtedly have been taken having regard to the Government’s announced fiscal policy. It is clear that if the Government persists with its spending plans, interest rates will rise far more quickly and steeply than would occur under a government exercising sound financial and economic management.

The Government could reduce the upward pressure on interest rates by winding back the fiscal stimulus. This should be done through reducing its massive spending program and not by raising taxes.

Homebuyers and businesses would benefit greatly from a slower increase in interest rates. A return to normal rates will add approximately 3% to current mortgage and business interest rates.

A 3% increase in interest rates would increase the initial interest cost on a \$300,000 home loan by \$9,000. This would add about \$7,200 to the annual minimum repayments (or about \$600 a month) on a typical \$300,000 home loan repaid over thirty years.

The government’s spending plan will need to be financed through continued heavy borrowings in domestic and international capital markets. This runs the danger of leaving insufficient funds for private sector borrowers, that is, of “crowding out” the private sector. This will mean home owners will find it more difficult to borrow to purchase or renovate their homes and business people will find it harder to borrow to invest in their businesses and to create jobs.

“Too much debt got the world into this mess. Too much debt is not going to save the world from this mess.”

Joe Hockey, Shadow Treasurer, House of Representatives, 25 June 2009



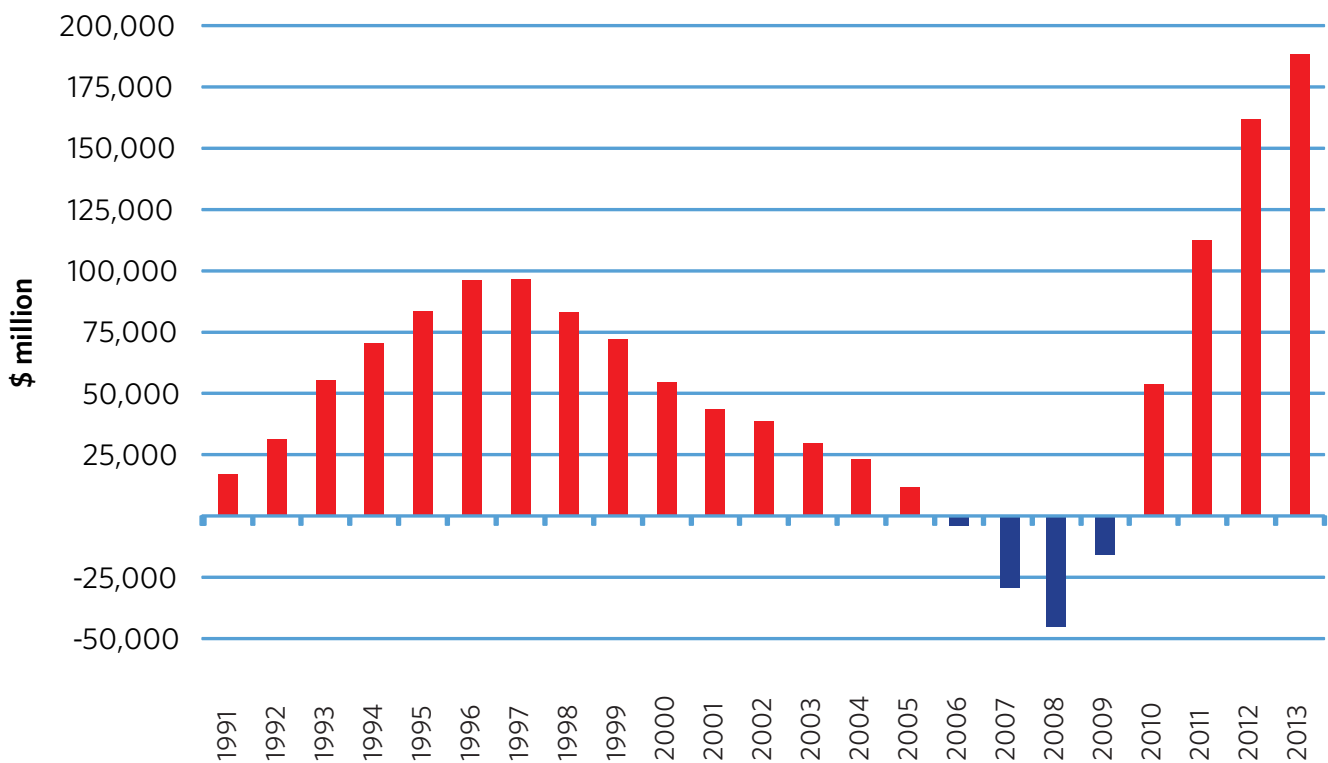
## 1.4 Same Old Labor

It is no surprise that Labor will not address in this term of government, or the next, the problems it is creating: deficits and debt; bigger government and higher taxes; lower economic growth and higher unemployment. This Labor Government is no different to the previous Labor Government.

Labor ran large annual deficits - as high as \$18 billion - in the first half of the 1990s. The Coalition reduced these deficits and then turned them into surpluses, even as income taxes were cut.

In 1996, the Coalition inherited from Labor a net debt of \$96 billion. Eleven years later, Labor inherited from the Coalition financial assets that exceeded debt by \$45 billion. In the 2009 budget, Labor was prepared to take net debt back to \$188 billion, twice the mess it left last time it was in office. Even with lower deficits resulting from a stronger Australian economy net debt will still greatly exceed the legacy left by the previous Labor Government. It took the Coalition more than ten years to repay the Keating Labor Government's debt. Figure 1 graphically demonstrates the difference between Labor and the Coalition.

Figure 1. Australian Government Net Debt





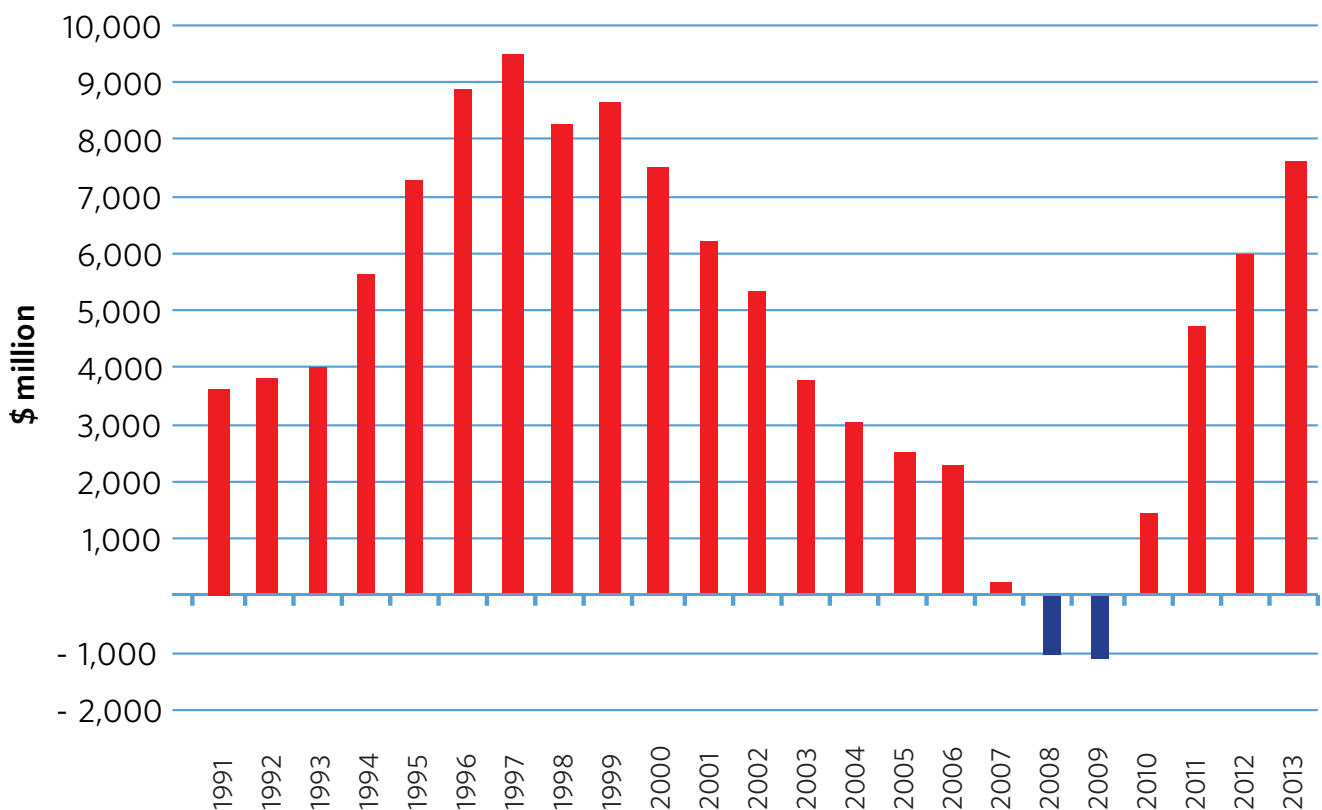
Labor's path to debt saw annual net interest payments peak at over \$9 billion. In 2007-08, net interest received was \$1 billion. By 2012-13, Labor's budget would take us back to net interest payments approaching \$8 billion.

Figure 2 tells the story.

When the Coalition won office in 1996, Australian government expenditure was 26.2% of GDP. Eleven years later, this figure had fallen to 24.0%. And unemployment fell from 8.2% in March 1996 to 4.5% in November 2007. Unemployment is now 5.8% and government expenditure is set to rise to 28.6% of GDP.

Labor has already wasted tens of billions of dollars of public money. Unfortunately, this money cannot be recovered. But decisions can be made now to avoid further mistakes that will make the problem much worse.

**Figure 2. Australian Government Net Interest Payments**



# 2 The Coalition's Plan to pay off Labor's Debt

A Coalition Government will deliver on four key principles to reduce Labor's debt and prevent the further accumulation of irresponsible and unnecessary debt.

## 2.1 Reduce Government Waste

- The Coalition will do more with less by reducing waste and duplication throughout the Australian Government, and between the federal and state governments.
- The Coalition will immediately upon coming into government establish a Commission for Sustainable Finances to report within three months on waste and duplication in every agency and program of the government.
- This will take Australia off Labor's path of reckless spending and higher debt and provide the blueprint for affordable, high quality public services.

A responsible government ensures that all public spending is efficient, targeted and affordable. When the Coalition won office in 1996 it established the National Commission of Audit to report on the finances of the Australian Government. This included identifying how government departments and agencies could be made more efficient in the use of public money. Regrettably, the Commission for Sustainable Finances will be reporting on an even worse financial position than the last Labor Government left in 1996. The task ahead is great.

The Commission for Sustainable Finances will report on the efficient use of resources, including asset and personnel management, in providing public services. A crucial part of greater efficiency in public administration is addressing unproductive layers of bureaucracy operating across the three tiers of government: the Commonwealth, states and territories, and local government.

## Stop the Cash Splashes

As part of the restoration of sound financial management, the Coalition will not repeat Labor's cash splashes. Handing out \$23 billion in cash may be popular, but it recklessly adds to debt. Worse, its effects in stimulating the economy are small and temporary while the cost is large and will continue for years to come.

Whatever the economic circumstances, governments should always be focused on spending taxpayers' money wisely. As the Coalition made clear, there were far better and less costly policies to stimulate the economy available to the Government. The Coalition supported a program of carefully chosen and well-managed infrastructure projects that improve the standard of living. Instead we got the Building the Education Revolution.

The Coalition also proposed bringing forward income tax cuts to improve incentives at a critical point in the economic cycle. Labor not only opposed this idea, it abandoned the plans it had announced at the 2007 election to lower income taxes after 2010, saying that this would be fiscally irresponsible. Labor then announced a massive increase in government spending. Labor would always rather increase government spending than cut taxes.

## 2.2 Increase Economic Growth

- The Coalition will pursue a vigorous reform, infrastructure and innovation agenda to lift productivity and increase economic growth.
- The Coalition will support small businesses, the engine room of the economy, through our Small Business Action Plan.
- Higher economic growth will raise living standards for all Australians, make debt repayment easier and make the provision of good quality public services more affordable.

Economic growth provides the basis for a better way of life. A richer and more productive Australia will allow all Australians greater opportunity to pursue their dreams. In particular it will give opportunities of employment and improved living standards for those on lower incomes. Improving productivity is an essential part of responding to an ageing population.

While Mr Rudd claims to believe in improving productivity and promoting economic growth he has consistently attacked the "political right", who have "promulgated for the past quarter-century an ideology of free-market fundamentalism". His ill-informed outbursts not only denigrate the achievements of the Coalition Government from 1996 to 2007 but the previous Labor Government's achievements from 1983 to 1996.

The economic reforms of this time include floating the dollar under Labor, financial deregulation under Labor and the Coalition, and improved financial market regulation and a more independent Reserve Bank under the Coalition. It is clear that Labor does not understand how sound economic and financial policies up to 2007 placed Australia in a better position than most countries to weather the present difficulties. And it is clear that Labor has no commitment to deliver similar policies to promote economic growth in the future.

## Support Small Business

The Coalition's strong support for small business reflects our understanding that it is a key driver of innovation, competition, employment and economic growth. But the Coalition also understands that small business is an expression of the abiding willingness of Australians to take risks and make decisions for themselves. Small businesses are not just good for the economy, they are good for society.

The Coalition has been meeting small businesspeople at Jobs for Australia forums around the nation. The Small Business Action Plan was announced in April 2009 and is part of a range of policies aimed at assisting and strengthening small business. These policies include tax loss carryback, fairer insolvency rules and improved incentives for hiring apprentices.

A key issue for small business is effective but simpler and less costly regulation. Labor has been dragging its feet on regulatory reform and Australia's growth performance has suffered as a result. The Coalition has committed itself to reducing the regulatory burden on small business to the lowest level in the developed world. As part of this commitment, the Coalition will introduce a one-stop online portal to provide access to all forms and filings required of small business, regardless of which level of government imposes them.

## 2.3 Restore the Balance

- The Coalition recognises that Australia's wealth is created by the private sector, not by the public sector.
- Labor wants to increase government spending as a percentage of GDP.
- The Coalition commits to a responsible long term objective of returning government's share of the economy to the level achieved by the previous Coalition Government.

Only part of the growth in the size of government under Labor can be explained by the effects of the global financial crisis on Australia. Much of it reflects Labor's ideological commitment to bigger and more intrusive government. Kevin Rudd has declared that the government should be at the centre of the economy.

Permanently higher government spending leads to permanently higher taxes. The results are lower economic growth and fewer job opportunities. Ultimately this makes it more difficult for Australians to provide for themselves and their families.

The last five Coalition Budgets had spending of less than 25% of GDP. Only the Coalition can be trusted to return the government's share of the economy to this level.

By focusing on reducing government waste, promoting economic growth and limiting the growth in government spending, the Coalition will be able to restore a better balance between the public and private sectors as well as restoring the government's finances to a surplus.

This will be essential in ensuring that the Commonwealth retains its AAA credit rating, a key contributor to reining in interest costs.

Tighter budgetary policy will also assist in keeping interest rates lower for home buyers and businesses.

As part of restoring the balance between the public and private sectors, the Coalition will deliver a timely and responsible withdrawal of the Commonwealth's guarantees of private sector and state government debt.

While reducing Commonwealth-issued debt is the focus of the Coalition's strategy, eliminating Commonwealth-guaranteed debt is also an important objective. This reduces the exposure of taxpayers to unpredictable future liabilities.

## Lower the Tax Burden

By following the plan outlined above, the Coalition will ultimately be able to lower permanently the tax burden on all Australians. Lower tax levels will be deliverable once the dire fiscal situation Labor is creating has been corrected.

In addition to lowering the overall tax burden there are other dimensions to tax reform which the Coalition will pursue. The present tax system is too complex, involving most Australians spending far too much time and money completing forms and paying their taxes. Some taxes greatly reduce incentives to work, save and invest, and so lower economic growth. There are concerns about the fairness of the system.

The Coalition is committed to addressing all of these problems in a comprehensive and principled program of tax reform.

“If this unprecedented borrowing is not scaled back, then there is a real risk of putting upward pressure on inflation and interest rates as the economy recovers.”



Helen Coonan, Shadow Finance Minister, Press Release, 4 August 2009

## 2.4 Ensure Honesty in Public Finances

- The Coalition will ensure honesty in public finances.
- The Coalition will establish a Parliamentary Budget Office, which will be independent of both the government and the opposition, to ensure the public and Parliament receive honest and timely analysis of the budget, financial results and specific programs.
- Further, the public will be able to track government debt at a real-time website detailing the size and composition of borrowings, interest paid and projections into the future.

One of the tasks of the National Commission of Audit established in 1996 was to advise on the Charter of Budget Honesty, which had been a Coalition election commitment. The Charter was a major advance in providing more open and responsible government.

But when the Coalition established the Charter of Budget Honesty in 1996, it did not conceive of a government as irresponsible as the Rudd Labor Government.

In less than two years Labor has taken the public finances of this country from large surpluses to far larger deficits with little regard to the long term financial and economic effects. Major programs costing billions of dollars, such as the National Broadband Network, have been announced without any analysis of their costs and benefits.

The current Government has shown contempt for the people and Parliament. The need for an independent Parliamentary Budget Office is clear.



“If you go heavily into debt, you have got to pay it off with interest and that is going to be a very heavy burden. So that’s the single most important thing we need to do, is to bring discipline and integrity back into the management of our public finances.”

Malcolm Turnbull, Leader of the Opposition, ABC Radio, 19 May 2009

# Conclusion

If it is returned to power at the next election, Labor will increase Australia's debt rapidly and avoid paying it off for as long as possible. As debt rises, so will interest payments. Much of the additional spending will not be on long term, productive investments that help us to repay the debt. Instead, there will be a continuation of the wasteful spending we have seen to date. Government spending will increase permanently and only large increases in taxation will be able to balance the budget. Under the strain of higher government spending, poor financial management, higher taxes and higher interest rates, economic growth and employment will suffer.

## THERE IS ANOTHER WAY.

It requires a commitment to reduce waste in every corner of government; increase economic growth and productivity; control the growth of government; and ensure independent scrutiny of Australia's public finances.

**Only the Coalition has the discipline and the track record to choose this better way.**

For more information on the Coalition's Plan to pay off Labor's Debt go to [www.liberal.org.au](http://www.liberal.org.au) or to get your own copy of this plan, please email [reception@liberal.org.au](mailto:reception@liberal.org.au)

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