

# How Joe Hockey should spread the budget pain

**Spending cuts**  
The Treasurer should be putting the biggest load on those who will gain the most from renewed economic growth and lower rates.



Stephen Anthony

Macroeconomics' latest *Budget Bulletin* released on Monday tells the story of the fiscal challenges facing the Abbott government and in particular Treasurer Joe Hockey – and some of the options he has to meet those challenges.

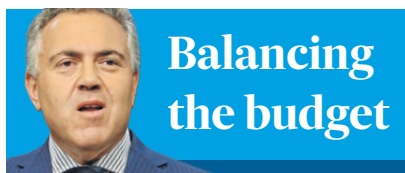
The legacy of a decade of fiscal largesse by both sides of politics is a significant budget structural deficit that will require remedial action to correct.

The key reason the structural deficit will not necessarily correct itself is that there is significant spending growth just beginning at the end of the forward estimates period.

This is due to programs such as Disability Care, commitments such as raising defence spending to 2 per cent of gross domestic product, increasing the Commonwealth's funding share of public hospitals, and matching Gonski education funding. Then there are longer term spending pressures related to population ageing and the environment.

We estimate a material discretionary budget tightening is required of up to 1 per cent of GDP (about \$16 billion) to correct the structural deficit, and removing this amount from the spending base. If achieved in a smart way, adjustment will be phased over two to three years, with cuts chosen to specifically mitigate the impact on domestic demand and the disadvantaged. A well-crafted package of spending cuts can also assist the goal of raising national productivity by improving incentives for work and entrepreneurship.

Our main advice to the current government is to cut early and cut hard because they will never have a better



chance than now to fix the budget. The savings list is quite obvious and widely known. The key focus is on middle and upper-class welfare recipients (especially in health programs and in assistance to the aged, households and corporations).

Indeed achieving up to \$16 billion in spending reductions requires more political courage than hard work, or break-neck bureaucratic activity fuelled by NoDoz and Berocca.

One afternoon with the Department of Finance and their spending program data ought to do it.

The best approach is to spread the pain as widely as possible and to impose the largest share of adjustment burden on those most likely to benefit from the resultant resumption of strong growth and lower interest rates.

Some will argue against cutting spending right now, with the economy growing below trend. Their point is that "austerity" is not path to advancement.

Our comeback would be that neither is waste or mismanagement growth enhancing. We argue that cutting waste can actually increase GDP in the short-term because it spurs entrepreneurship and raises investor sentiment. If a fiscal expansion by an open economy can be

crowded out by imports, a fiscal contraction can stimulate activity by encouraging manufactured exports and tourism via a lower currency.

The key objective of macro-economic policy should be about restoring the "easy" money and "tight" fiscal settings which supported growth in this country for a decade or more before 2004.

While recent budget nights have promised big cuts – but instead have been big fizzers – it looks as if 2014 may deliver. There are historical precedents.

- In 1988 a Labor government (guided

*One afternoon with the Department of Finance and their spending program data ought to do it.*

by finance minister Peter Walsh) faced with declining commodity prices, a huge budget deficit and a strengthening economy, cut public spending by more than 2 per cent of GDP in the budget year (around \$32 billion in today's dollars).

- In 1996 a Coalition government (guided by treasurer Peter Costello) managed to deliver sizeable spending cuts during its first and second year in office of between 0.5 to 1 per cent of GDP at the time of the Asian financial crisis.

Our hope that is that whatever the cuts,

any adjustment package is crafted to mitigate the pain of adjustment while maximising growth potential.

The idea is to do everything possible to assist those parts of the economy that did not benefit from the investment boom, putting downward pressure on the Australian dollar, interest rates and business input costs. Good luck Treasurer Hockey with this balancing act.

What the Australian economy really needs is a domestic driver of growth. The Abbott government must focus on reforms which target productivity (including controlling spending). However, while every galah in the pet shop talks the talk on the productivity agenda, there is no real desire to undertake the hard reforms or club busting that are required to bring it about, such as finally breaking open the monopolies and monopolies that impede living standards and the path to higher growth in Australia.

For example:

- Revisiting the unfinished business of micro-economic reform and national competition policy. This means reforming closed shops such as the pharmacy sectors and medical professions and so opening the delivery of health services to greater innovation, efficiency and reducing the opaque nature of fee setting.

- Use the Productivity Commission to benchmark the fiscal performance of Australian governments using scorecard indicators.

*Stephen Anthony is director, budget policy and forecasting at Macroeconomics.*

## Abbott is out to make Fair Work into his own creature

**Workplace regulation**  
The PM is planting an appeal body on top of the Fair Work Commission to rob it of its independence.



Brendan O'Connor

It was one line buried deep in the Liberal Party's election policy: "... give active consideration to the creation of an independent appeal jurisdiction of the Fair Work Commission".

A handful of words Prime Minister Tony Abbott wants to use to tear away the independence of a Commission which has operated in one form or another since 1904.

It would be vulgar politics from Mr Abbott and his Employment Minister Eric Abetz to revive Work Choices at arm's length by creating a partisan body out of the independent umpire.

The government wants to create and appoint its own appeals body with the power to overturn full-bench decisions of the Fair Work Commission.

Think penalty rates.

Think the minimum wage.

It would be Work Choices not in disguise, but shouted from the rooftop.

Despite this intent, the government does not have a mandate to radically change the composition of the Fair Work Commission.

It has cited inconsistency in the decision making of the Fair Work Commission, and a lack of an existing appeals process, as motivators for its radical proposal.

To argue that is to take you for a fool.

The Fair Work Commission, or Commonwealth Court of Conciliation and Arbitration as it was established, has maintained an enduring independence free from interference of the executive for the past 110 years.

It has kept pace as Australia has grown, modernising industry awards, facilitating enterprise bargaining and striking a delicate balance between employer decision-making and protecting the millions of low-paid workers who rely on the minimum conditions it sets.

The appointment of the dedicated and hard-working commissioners who make up the industrial umpire usually occurs in accordance with a convention that ensures appropriate and balanced representation.

Regrettably, the Howard government tore up this convention when it appointed just two commissioners from a union background during its 11 years in office.



The industrial umpire strikes a balance between workers and employers. PHOTO: PETER BRAIG

And despite the change of government in 2007, Geoffrey Giudice – appointed to the commission by the Howard government in 1997 – presided over the industrial umpire until early 2012.

While the Labor government sought to carefully restore the balance the Howard government had discarded, the Abbott government is now determined to undermine the entire Fair Work system in a more alarming way by creating a new layer of bureaucracy.

This self-serving red tape is one layer the government is sparing from its so-called regulatory bonfire.

The government wants to undermine the independent umpire by awarding the free kicks itself.

The government has repeatedly cited inconsistency in decision making and the lack of an appeals process as motivation for its radical proposal to gut the commission's independence.

But the facts unpick the argument, because the process for considered decisions and subsequent appeals is as robust as it is well-worn.

Decisions of single members of the commission can be appealed to a full-bench review. Full-bench decisions can then be appealed to a full bench of the Federal Court of Australia.

In rare circumstances the High Court can then make an absolute ruling on a matter.

This process has supported the Australian industrial system for more than a century and it should remain for many centuries more.

The Abbott government's crude attempt to hack away at the independence of the Fair Work Commission is nothing more than an alarming manifestation of its sustained attack on workers' rights and entitlements.

The status quo is under attack for the government's political gain. If this is not the case, the government must immediately release the detailed terms of reference that outline how this body would operate.

Within what parameters? What will it cost to establish? How will it affect the appellate jurisdiction of the Federal Court of Australia? Why is the current appeals process so inadequate?

After 110 years of an economy working and growing under the watchful eye of a respected and independent industrial umpire, Australians deserve the answers to these questions.

*Brendan O'Connor is opposition spokesman on employment and workplace relations.*

## A republic is for old fogeys

Rachel Bailes

With the start of the royal visit today, the usual suspects are reminding Australians that it's time to become a republic... again. I am one of an emerging group of young monarchists who dispute that the ditching of the monarchy is inevitable.

As a young constitutional monarchist, I am regularly quizzed: "Isn't it a bit strange that a young person like you is enthusiastic about something like the monarchy?"

But the notion that republicanism is modern and progressive whereas monarchism is anachronistic must be rejected. In truth, monarchies do not always give way to republics, and baby boomer republicans do not always give birth to little republicans.

I have learned this the hard way. I was raised in a republican home; the black sheep of the family who signed up to Australian Monarchist League mailing lists in secret, poured over pictures of royal motorcades, and learned about the late Princess of Wales in obsessive detail.

My perplexed parents tell me they are the future, and I the past. I comment in return that their republicanism is perfectly understandable – fashionable for their bygone era. After all, the post-war generation was one of anti-authoritarian, anti-patriotic, revisionary republicanism.

This default to a republic is no longer in the spirit of the times. In a global atmosphere of constant upheaval, my generation is less interested in breaking from the past and more interested in what works, what maximises society's happiness, and what is most effective in containing the creeping power of the political classes.

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