

Budget must best Shorten and escape Abbott's shadow

Canberra observed
Malcolm Turnbull's challenge is not just Labor's agenda-setting but an inability to escape the Abbott legacy and create his own mandate.



Laura Tingle

Suddenly, it's just 11 sleeps until the federal budget which, this year, is not so much the premier event on the political calendar as just the next political hurdle, the next possible political magic trick, that Malcolm Turnbull must leap across, or conjure up.

Can the Prime Minister and his Treasurer pull a rabbit out of the hat? Will the recent snapback in iron-ore prices allow the government to frame a budget for the first time in years without the spectre of the revenue numbers crumbling beneath them as they speak? Can they deliver a budget that redefines the political battle over the budget bottom line?

The focus on the mechanics of the three-week parliamentary sitting that became a two-day sitting, and the gradual erosion of expectations over a period of months about the scope of tax reform, has left a curious vacuum around this year's budget.

Commentators will regularly repeat how much rests on the budget, yet no one seems too certain about what the budget must deliver to be judged a winner for the government.

Even the basic questions – of whether there is merit in delivering a budget that reinforces the Coalition's economic management credentials through a sizeable improvement in the bottom line, or whether it will only be judged by the relative political cost and benefits of its inevitable pluses and minuses – don't seem to have really been considered.

Part of the problem is that Labor has already managed to get its fingerprints all over the budget before we have even seen it. Changes to superannuation tax concessions and to multinational tax arrangements are expected, for example. Labor has already been there.

Bill Shorten on Thursday left open the possibility of extending the so-called deficit reduction levy on high-income earners, depending on the shape of the budget that Scott Morrison delivers on May 3.

In for a penny, in for a pound it seems. If the Coalition is going to paint Labor as the high-tax alternative, the opposition might as well hold on to a Coalition revenue measure to improve its bottom line.

But it is not just Labor that is casting a shadow over the budget.

If the budget is a metaphor for the political task facing Malcolm Turnbull between now and July 2, that task is just as much about escaping the shadow of Tony Abbott and Joe Hockey.



Malcolm Turnbull is being persistently outplayed by Labor. PHOTO: NICK MOIR

Turnbull has regularly been cast as Malcolm in the Middle since he became Prime Minister. But this has mostly been about portraying him as stuck between Shorten and his own party's conservatives.

But, perhaps more importantly, his challenge is escaping the Abbott legacy and getting enough space to create his own mandate.

It is easy to overlook the extent to which the Prime Minister has moved away from his predecessor's positions on a range of issues, largely because he has had to crab walk away from them while emphasising continuity.

The government's environment policies, for example, have gradually been softened.

Turnbull has tried to find compromises on idiotically stubborn positions Abbott had taken on contentious infrastructure projects in Melbourne.

The most spectacular turnaround has been in the approach to Adelaide.

Remember the 2013 machismo when the car makers announced they were pulling out? Collateral damage in terms of job losses in South Australia and Victoria? C'est la vie.

Under Turnbull, the government intervened to try to help the Arrium steelworks at Whyalla by bringing forward

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a rail track upgrade.

This week the Prime Minister and Defence Minister Marise Payne announced \$40 billion of naval shipbuilding. Just so there was not even the slightest risk that hands might be left idle, a patrol vessel build that is slated for Western Australia will start in Adelaide for two years, to make sure any gap between the air-warfare destroyers and the frigates was filled.

Next week, the government is expected to announce progress on the \$50 billion submarine contract. It is not clear whether there will be an announcement of an actual winner, or more likely, an announcement like this week's of a shortlist of bidders with an emphasis on announcing where the subs will actually be built, and where all the ancillary benefits of the supply chain will be spread across the country.

Either way, the expectation is that the

Japanese bid has now been ruled out and that it is a contest between the French and Germans.

And, once again, this represents a significant shift from the twice Abbott had got us into on our biggest single defence procurement.

All these changes might look more significant if it wasn't for the fact that, while Turnbull extricates himself from such messes, and struggles to find issues he can call his own, he is persistently outplayed by Labor.

The Prime Minister was claiming credit for the move by the banks on Thursday to "strengthen community trust" because he had criticised them in a speech at Westpac earlier this month. But it was the spectre of a royal commission – terms of reference unspecified – raised by Labor that really focused the minds of the banks and dominated the parliamentary sitting this week.

The Prime Minister has professed himself satisfied with the outcome of this week's sitting, telling colleagues that even if others thought it looked pretty ragged, we would all still be here if Parliament had not been recalled for two days, because the Senate would have filibustered to keep it running.

So it was all a cunning plan, it seems. It is certainly true that the upshot of all the manoeuvres of recent weeks is that the government has got through Senate voting reforms that had previously appeared doomed to failure, and got its double dissolution trigger and thus a July election.

But our politics have been transformed over recent months into a class war. For the first time in a very long time, we go into an election campaign without a leader with meteoric ratings, or who is equally reviled. There is no mortally wounded vulnerability in conservative or Labor politics. There does not even seem to be a clear benefit in incumbency. There is no spectacular boom or bust in the economy underlying the politics, and no party can claim great economic management superiority.

While there are lots of complaints about how bored we will all be by election day, the prospects for things to go wrong are manifest, and the chances that we will be talking about something very different by July 2 are very high.

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Here are five revealing things to look for in the May 3 budget

Fiscal policy
The budget is a crucial event for any federal government. Here's how officials make it look better than it really is.



Richard Holden

Policies in the federal budget, to be handed down on May 3, will affect the personal finances of households around the country. It will also set the scene for much of the upcoming election battle.

Amid a sea of statistics, slogans and spin, what are the key takeaways for you? Here's what to look for on May 3.

Forecasts: Both government revenue and expenditure going forward depend on macroeconomic factors. Expenditures depend importantly on inflation, since many welfare and other benefits, as well as payments to government employees, are inflation indexed. On the revenue side, tax receipts depend on nominal gross domestic product growth, and the composition of it, which determines who is in which tax bracket.

Recent history on GDP growth and inflation are a pretty good guide to the coming year. But the further into the future, the more difficult it is to make accurate forecasts. This provides more scope for the optimistic side of one's nature to express itself. GDP growth three and four years out in budget figures is almost always higher than the current number – and usually doesn't turn out to be correct. I used to call this "Hockey's hockey stick". That phrase may be one treasurer out of date, but the scepticism underlying it is still very current.

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Timing tricks: Related to forecasts, one peculiar feature of federal budgets is that the impact of policies is only considered over the next four years. This is the so-called "forward estimates" period. Not only does this allow the kind of heroic assumptions I just mentioned, it allows governments to bring forward good news and push bad news four-plus years out, and pretend that the bad news doesn't count.

So be on the lookout for policies that provide an immediate sugar hit, but push the downside beyond the forward-estimates period. This can be on the revenue side – like assuming the behaviour change of a tax policy will happen very fast, boosting government revenues in the short run, but leaving the negative changes until more than four years out. An increased tobacco tax would be a good candidate for this particular shenanigan.

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It can also be on the expenditure side: like announcing an increase to welfare benefits or state-government funding, but making four or more years out to the future.

Bracket creep: If budget timing is peculiar, then the fact that tax-bracket cutoffs are not indexed to inflation or wage growth is genuinely bizarre. And insidious. This means that if the Parliament does not enact legislation changing the cutoffs then average tax rates go up over time, as does government revenue, but all taxpayers face an effective tax rise.

It's the classic "omission-commission" distinction. In this case, not doing anything causes something bad (from the taxpayers' perspective) to happen. But because it is not an overt act, the government doesn't get tagged with it the same way as a direct tax increase. So governments like it, but it has the same negative economic effect as any income tax rise.

The bottom line: What we tax matters much more than how much we tax. And the same is true of spending. But it is still worth thinking about how much tax the federal government raises and spends as a

percentage of GDP. Credit ratings agency Moody's recently said that spending restraint was both unlikely, and insufficient, to deal with our budget deficit and growing debt. The treasurer has strongly resisted this idea – both before and after Moody's made their observation.

If the Coalition is really serious about spending restraint – and there is room for debate about whether this is the right approach – then total spending as a percentage of GDP should fall by a full one percent or more over the forward-estimates period.

If they deliver that then at least they are championing an alternative vision than the Labor opposition.

The "tell": Poker players and aficionados will be familiar with the concept of a "tell" – a player's facial expression or physical tick that gives away their hand. Treasurer Scott Morrison has one. When he feels uncomfortable in Parliament he says "Mr Speaker" a lot. Often twice in a sentence. If you hear that on budget night (accepting that he will be reading from a speech) or the debates that follow, make a note of what he was talking about when you hear it.

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