

No pressure Joe, but you are back in the spotlight

Written by The Conversation

The government wants the public to take several political messages out of the Intergenerational Report Joe Hockey is releasing on Thursday.

Stated crudely, these are: first, that Labor's policy settings would have taken us to hell in a hand basket; second, that but for the pesky Senate, the budget would have been in good shape relatively soon; and third, that despite the obstacles, the government is making progress towards bringing us to fiscal health.

The report is set to frame the story for Hockey's second budget. In contrast to the first one's crash through approach to what the Coalition had talked up as a massive crisis, the coming budget is being cast in terms of steady repair.

The new approach is driven by difficult politics and a weak economy.

Tony Abbott has had a reprieve but his longer term future remains in doubt. Trying to consolidate his leadership isn't coming cheap. By Wednesday he'd cost the budget more than \$1 billion in two policy backdowns in as many days – tossing out the Medicate co-payment (\$900 million lost saving) and increasing pay for the defence forces (\$200 million). Offsets will need to be found.

On the economic front, Wednesday's September quarter GDP figures showed Australia's annual growth going in the wrong direction - now just 2.5%, down from 2.7% in the previous quarter.

This fourth IGR is, like the one then treasurer Wayne Swan issued in 2010, a document that's much more heavily laced with politics than were the first or second. The opposition is already attacking it on this ground.

Shadow treasurer Chris Bowen says it will be a "politicised" document designed to salvage the government's "failed unfair budget". "The Treasurer has recently claimed that the IGR was

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'independent analysis' but the Treasury confirmed during Senate estimates last week that all key elements of the IGR are matters for the Treasurer," Bowen says.

The report outlines three scenarios about the deficit.

Under Labor policy, by 2054-55 the deficit would have reached nearly 12% of GDP, and the ratio of payments to GDP would have been on track to reach 37%.

Under what's been already legislated by this government, the deficit would almost halve to 6% of GDP by 2054-55.

The policy scenario the government had originally proposed had the deficit moving to a sustained surplus from 2019-20.

The initiative for IGRs (part of Peter Costello's charter of budget honesty) was a good one and the general exercise is valuable. Long term demographic trends, most notably the impact of the ageing of the population, are highlighted.

The reports highlight the growth trends in big spending areas. Policy makers are reminded, when they have potentially costly ideas, that they should think beyond the immediate budget cycle.

The IGR can also, legitimately, be used by politicians and others to argue the case for structural reforms.

This report documents the expected decline in the proportion of the population participating in the workforce over the next four decades as the community ages. By 2054-55 the participation rate for those aged over 15 - 64.6% in 2014-15 - is projected to decline to 62.4%.

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The IGR reinforces the argument that more participation is needed by older people and women, buttressing the case for better child care (the government will announce a child care package soon), more flexible working arrangements and the removal of discrimination.

On current trends, the proportion of women aged 15-64 who are employed will increase from 66% today to just 70% by 2054-55. The report says that policies removing barriers to women's participation and encouraging them to work can drive gains in GDP and income.

It also points to the need to ensure spending is sustainable.

This was a message new Treasury secretary John Fraser hammered last week, arguing that "weakness in revenue is only partly to blame for the current state of government finances.

"The reality is that Australia has spent its way to a structural budget problem. Government payments are growing faster than government revenues and without action, this trend will continue," Fraser said.

But the debate about this IGR will inevitably make the numbers sound more authoritative than they can possibly be.

The projections are based on assumptions, varying from the long term growth rate to the migration intake. There are alterations in assumptions from report to report, and even making small changes can produce very different figures.

Common sense tells us that to talk about the deficit in 2055 requires a crystal ball as much as an economic model. If there had been an Intergenerational Report in 1975, how accurate do we think its projections for 2015 would have been?

Abbott noted that on the projection of the government's 2014 reforms "the budget would have fairly quickly returned to substantial surplus and stayed there for 35 years". But it should be

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emphasised this is only on the model – no one can know what would happen in real life over all those years.

To add a cheap shot, we might also observe that Treasury has problems getting its forecasts and projections right from budget to budget.

The IGR and the subsequent debate will be very important for Hockey's own credibility. The Treasurer has been under as much criticism as Abbott. This week we've seen Abbott lift his game considerably. The policy adjustments have been accompanied by a less aggressive, improved performance in question time and, on Wednesday, even a promise to sit down with Bill Shorten to discuss the issue of domestic violence.

We've yet to see much improvement in Hockey. He's tended to be out of the spotlight recently; suddenly he'll be back in it. He can't afford any missteps.

He has to strike the right balance in presenting the IGR (he has so far cast it as both scary and exciting). Then in a couple of months comes the bigger hurdle of the budget – a test on which both his and Abbott's future could swing. No pressure, Joe.

Listen to the newest Politics with Michelle Grattan podcast, with guest, Shadow Communications spokesman [Jason Clare, here](#) .

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