



Scott Morrison has been on the campaign trail selling the budget. Dean Lewis/AAP

The budget did enough to ward off a credit downgrade from the ratings agency Standard and Poor's (S&P), partly thanks to the A\$6 billion slug on those big banks everybody loves to hate. But the S&P report issued this week should make sobering reading for politicians on both sides of parliament and on the crossbench.

The message is that Australia is on notice: external and internal vulnerabilities pose risks. As for that narrative – aka projection – about returning to surplus in 2020-21, S&P will believe it when it happens. The agency spokesman said tartly: “We have seen governments forecast surpluses for many years now and they haven’t materialised ... we don’t think further pushback on the surplus target is consistent with the AAA rating here on in.”

Australia faces all sorts of challenges in the post-mining boom years. But it is hard to avoid the conclusion that a major one has been and continues to be the performance of our politicians, across the board. A combination of incompetence and expediency has let down the country in the task of fixing up the budget.

The 2014 budget, following the Abbott government win with a big majority, provided an ideal time for repair. But the government, having drunk treasurer Joe Hockey’s “age of entitlement” Kool-Aid, gave short shrift to fairness and previous promises. This invited disaster and the Senate, including a newly arrived swaggering Palmer United Party, delivered it.

Remember PUP, formed before the 2013 election, fragmenting in parliament, and recently disbanded?

As we watch Clive Palmer in court these days, we might wonder how, for a brief time, he could have gained so much political power. The answer was money, the Senate voting system and a disillusioned electorate. Opinions will differ, in relation to individual measures, whether these senators used their clout for good or ill, but they certainly helped destroy the budget.

Having blown itself up in 2014 the Coalition, first under Tony Abbott then under Malcolm Turnbull, went into retreat on budget repair. Voters, stressed by cost of living pressures and fed up with politicians, won't be persuaded anymore of the need for tough decisions. The government hangs its battered repair hat on that shaky projected on-the-horizon surplus.

Turnbull has had more success with the Senate than Abbott; this budget has been crafted in considerable part with the Senate in mind, so the government hopes its main initiatives will pass relatively unscathed. The bank levy has bipartisan support. But Labor has signalled it will try to limit the planned increase in the Medicare levy to those with incomes of more than A\$87,000 and so that is likely to be at least in play.

Whatever happens with the Medicare levy increase – which doesn't have to be legislated quickly because it only starts in 2019 – the Senate seems to have no intention of approving the second tranche of the 2016 company tax cuts, which remains government policy.

When they consider budget measures, the opposition and the crossbench should have in mind the S&P warning, as well as other factors.

Certainly S&P has the Senate firmly in mind, saying that “enacting further savings or revenue policies could remain a challenge, given the Senate's unwillingness in recent years to legislate many of the government's fiscal policy measures or doing so after considerable delay. This dynamic, which could continue, presents further downside risk to the outlook for fiscal balances”.

There is no broad agreement about how far the Senate should go when dealing with budgets. Only questions. Should a government be accorded the right to get its main measures through, albeit with some amendments? Is an opposition justified in trying to obstruct any measure it regards as bad, regardless of the wider budget picture? Is it appropriate that crossbenchers elected on relatively few votes can be in a pivotal position to thwart a government or demand expensive concessions in return for support?

Abbott says the Constitution should be changed to allow blocked legislation to be considered by a joint sitting without the present requirement of a double dissolution. There is an argument for such a change, but it wouldn't get through a referendum.

Certainly there is a case for oppositions more often to contest measures without seeking to block them, leaving judgements for election time.

Political self interest will always be a major factor in how players approach budgets – it's unrealistic to think otherwise. But the permanent election campaign that now dominates politics encourages everything to be fought to the death, whatever the economic and fiscal cost. At some point, the price becomes very high.

With an eye to fiscal credibility and the AAA rating, the government came up with its levy on the five major banks. The banks have forfeited much of their social licence so are an easy target. Regardless of the merits or otherwise of the levy, it is fruitful politics. Who once would have thought Scott Morrison would so relish bank bashing?

Accepting the budgetary imperative for the levy, the way the government is conducting its stoush with the banks is unedifying.

When Ken Henry, former Treasury secretary under both sides of politics and now NAB chairman, bought into the row, the government made things personal, suggesting he was politically biased. Not that Henry can't look after himself – in February he delivered a swingeing critique of politicians dug “into deep trenches from which they fire insults designed merely to cause political embarrassment”.

The government's insistence that the banks sign a confidentiality agreement, preventing them from publicly discussing details of the levy legislation during the extremely brief consultation period, was wrong in principle and hypocritical. After all, the budget is – rightly – insisting the banks must be more transparent.

Apart from its blatant political purpose, the government's aggro approach appears to be stoked by its frustration with the banks over various issues, including the Australian Bankers' Association appointing former Labor premier Anna Bligh as its chief executive.

It would be better to deal with the banks' blowback in a more restrained manner. After all, one of

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the government's points against a royal commission has been that it would send a bad message to investors abroad. Surely it has to guard against doing the same itself by talking down the banks.

On the other hand, maybe it is starting to wonder why it didn't give in to the calls for a royal commission. That would have been as popular with the public as the levy is.

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