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“ THEY SAID IT

“You should shell out for them. You should support them, a wealthy man like you.”

Prime Minister Malcolm Turnbull to the ABC's Melbourne morning radio host Jon Faine, who earns more than \$300,000 a year but told the PM he feels his children are locked out of the housing market because of high prices.

“Can the Prime Minister confirm that in the past two weeks his advice to young Australians struggling to buy their first home is to have rich parents or to have parents who buy you a home when you turn one? Prime Minister, just how out of touch are you?”

Labor Leader Bill Shorten in Parliament yesterday.

“This ambition, this aspiration, this desire to put something, make an investment for your children, this is despised and mocked by the Labor Party. Mr Speaker, they talk about being out of touch. They are so out of touch.”

PM Turnbull says Labor is “sneering at hard-working Australians who seek to make something for their children”.

“Why is the Prime Minister cutting \$4463 every year from a single working mum on \$87,000 a year with two kids in high school while he gives someone earning \$1 million a year a tax cut of nearly \$17,000?”

Labor's Tanya Plibersek continues her party's attack.

“The government is doing no such thing.”

Turnbull's brief response.

“I believe I have the courage today to leave the House of Representatives, satisfied with what Palmer United Party has done and knowing it would have been a different Australia if we hadn't stopped the 2014 budget.”

Clive Palmer (pictured) quits federal politics.



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OUR DEBT WILL BE THE DEATH OF US



JOHN ADAMS

Australians have racked up an unprecedented level of household debt that now threatens the macroeconomic stability of the Australian economy.

According to the RBA's April 2016 charts, household debt has skyrocketed to 185 per cent of disposable income and continues to soar.

As reported by the ABC's Stephen Long in September 2007, the most personal debt in the history of Australian credit, with the two closest episodes occurring before the 1890 and 1929 economic depressions.

The current level of household debt is substan-

tially higher on a proportionally basis than as reported in 2007.

By any historical measure the Australian economy remains exposed to the real risk of an economic depression if a significant external economic shock was to occur, given the federal government's lack of fiscal and monetary scope to respond in a crisis situation.

The financial bubbles and excessive government debt in China, Japan, the EU or the United States all provide the trigger point for such a shock to eventuate.

Australia's current economic predicament is the result of a combination of ill-considered public policies and lifestyle and investment choices of individual households.

This has manifested itself through policy settings such as artificially low interest rates, tax and welfare policy that discourages savings and encourages borrowing, a consumption-fuelled Australian lifestyle and excessive speculation by households in real estate and shares which has,

in some cases, raised prices to unprecedented levels.

This combination of factors is the catalyst behind why inflation, not captured by the consumer price index, has been rampant and why the cost of living is currently the No.1 economic issue in Australia.

The RBA's decision to reduce the cash rate to 1.75 per cent as well as the federal government's 2016 Budget will only exacerbate current household debt levels, cost of living pressures and macroeconomic risks.

While many Australians are rightly concerned at the current level of government debt, excessive debt accumulated by the non-government sector (which includes households), according to historical economic analysis, threatens to inflict greater economic pain for a longer period of time if not controlled.

The Australian household debt bubble will eventually burst, most likely before the end of the decade. When it does, widespread economic hardship will be experienced by those who have incurred

unsustainable levels of personal debt. The underlying economic question is the depth and the duration of that hardship.

The political establishment has remained silent on this issue given its obsession that adverse economic commentary, even if warranted, will adversely affect business and consumer confidence and therefore short-term economic conditions. Such thinking is the catalyst behind current policy inaction regarding the structural weaknesses plaguing the Australian economy.

Australian policy makers do have pre-emptive policy options available to deal with the household debt situation, but will require significant political courage and an ability to communicate complex economic concepts to the public.

The principal policy lever must ultimately be to reform the formulation of monetary policy that results in higher interest rates. Australian households, under these conditions, would be incentivised to increase savings and be

dissuaded from excessive consumption and borrowing.

Associated tax and welfare reform, coupled with public encouragement for households to deleverage, will also be required.

Such pre-emptive action would likely result in the economy experiencing a recession, but would put Australians on a sounder financial footing that could prevent the country experiencing its third economic depression. As Paul Keating famously remarked, recessions are sometimes necessary in order to address economic and financial imbalances.

The broader implications of such policy action would mean a reorientation of economic life and values in Australia. One where Australians would dramatically reduce consumption, save substantially more and reduce existing personal debt, as well as reset personal expectations, accept a simpler lifestyle and increase their own self reliance.

John Adams is a former Coalition adviser.

BUDGET PUTS NATION BACK IN BUSINESS



KATE CARNELL

Small business has been a way of life for my family for as long as I can remember. My dad set up a small building company the year I was born, my son bought his first business 12 months ago, my daughter runs her own business, and over the years I've owned a number of small enterprises myself.

I know all about the long hours, the stress and the uncertainty that comes with operating a small business. I also know how satisfying it is to see your hard work pay off, and the

measures outlined in the federal Budget go a long way to helping small-to medium-sized enterprises (SMEs) around the country experience the satisfaction and pride of building a business and watching it thrive.

There has been plenty of air time and newspaper inches devoted to the specific measures outlined on Tuesday night, but fundamentally for small businesses, Treasurer Scott Morrison's budget does two things. First and foremost it creates certainty for SMEs, the mum and dad business owners out there who can chart their way forward with confidence.

Second it sets out a challenge for SMEs to harness the opportunities that are now in front of them, and seize the chance to really get the sector firing.

By putting in place a range of measures that the SME community has asked for – reducing the tax burden, streamlining BAS reporting

requirements, creating flexible super arrangements, increasing access to the instant asset write-off – the budget allows small businesses to go ahead and confidently make investments in terms of money, equipment and time in the long-term future of their business.

Confidence is everything in small business. This confidence leads to growth, which means more jobs, particularly for young Australians.

At a time when big businesses are increasingly downsizing or outsourcing, it's the SMEs that are creating the new employment opportunities in Australia.

And when you consider there are three million SMEs out there, imagine if even a quarter of them took on just one new worker – the economic and social impact of this would be immense, the unemployment problem would be solved, and the budget has certainly laid the ground-

work for more small businesses to invest in additional staff.

The budget has also made it easier for businesses to employ workers through the new Youth Jobs PaTH program, which provides training and work experience for young people, as well as a wage subsidy for employers who keep them on. The reality is, as the economy transitions away from the mining boom, Australia simply won't generate the returns needed for long-term budget sustainability without a robust SME sector.

The Prime Minister talks a lot about jobs and growth; many of those jobs and much of that growth will come from SMEs. Undoubtedly, there's a lot riding on the sector, but I'm confident that armed with the measures in the budget, SMEs will live up to their reputation as being the engine room of the economy.

Kate Carnell is the Small Business Ombudsman