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Nagging doubt over Budget deficit busters

HORSES are all given the same birthday — August 1. Elected senators are all given the same starting date — July 1. So when the new financial year began on July 1 we got a new Senate to go with it. Every dog is now barking about Clive and the pups who control the balance of power in this new Senate.

After the carbon tax is abolished there are some big issues that are still left over from the old Senate. The outcome of May's $400 billion Budget is one of them.

It is not true to say the Budget is in limbo. The central Bills — the Appropriation Bills — have sailed through without trouble. This means that any new funding or expenditure cuts in those Bills are being implemented in full.

The largest spending cut announced in the Budget was a cut in foreign aid. Foreign aid is set by the annual appropriation — about $7 billion over four years.

But there is considerable uncertainty in other areas.

Some spending is set by legislation that entitles a person who meets the conditions to be paid a certain amount — a socalled "entitlement program". The age pension is an example. The pension is set at 25 per cent of male average wages and increases every year as those wages increase.

The total amount paid out on age pensions depends on the number of people who qualify for it. There is no annual cap. The only way to contain costs is to vary the definition as to who is eligible, or to vary the indexation factor that increases the payment year after year. The Government is trying to use both techniques to contain costs on various entitlement programs. To do that it must pass legislation through both Houses of Parliament.

Changes to legislation on eligibility for, or the indexation of, entitlements can be vetoed in the Senate, which means they are in the control of Bill Shorten as Labor leader and Clive Palmer as leader of the pups. And the Government's changes on pensions, family payments and Medicare are not looking too healthy.

There is a lesson here. The more a government ties up its Budget in entitlement programs the less flexibility it has. This Government is proposing to introduce two very significant new entitlement programs — one to pay 26 weeks of wages for parenting leave for new mothers and one for disability care. It should bear in mind that as costs escalate under these programs, as they inevitably will, any changes to eligibility or indexation of payments will be subject to Senate approval and whatever buffoon holds the balance of power at that particular time. It would be wise to legislate minimum standards and establish new entitlement schemes only when they are really necessary.

The tax side of the Budget has had mixed fortunes. The increase in the top marginal tax rate has sailed through the Parliament with Labor support. It was the largest revenue measure over the forward estimates, but as a political measure it has not been successful. The idea was, so it was said, that if the Liberal Party compromised one of its core principles and supported higher income taxes, then the Labor Party would compromise one of its core principles and support lower spending. In fact no such thing has happened. The tax increase has gone through and the expenditure reductions are facing stiff opposition. Higher taxes have not brought any lower spending.

Even more effective will be the tax rises that don't require legislation. A taxpayer has none of the protection that pensioners get. A pension or benefit is indexed to make sure the recipient is not worse off under inflation. Tax rates are not indexed so a taxpayer is automatically worse off as inflation increases their wage and pushes them into higher tax brackets. Those on benefits are protected unless the Parliament passes laws to intervene and end the status quo. Wage and salary earners are unprotected unless the Parliament intervenes to restore the status quo. In a Parliament where there is a stalemate in passing laws, taxpayers automatically lose.

If Australia is going to balance its Budget any time soon it will be necessary to reboot the case for expenditure restraint. The report of the Commission of Audit was good but it seems to have been drowned out by the Budget.

One thing the Government could do is to bring forward the next Inter-Generational Report (IGR), which must be done at least every five years. Labor said it would do such a report every three years but the last was done in 2010. An IGR would look at the prospects of the next generation under the policies of today. I suspect it would show how current generations are financing their benefits out of tomorrow's taxpayers.

A new IGR would give us some idea of the unpalatable choices we will face in the future if we fail to face up to the difficult choices of today. The public needs to understand what the consequences will be if we have a decade of deficit. It might also help focus the minds of those senators who hold inordinate power over the prospects of our country. Once upon a time it was the duty of elected representatives to educate and inform the public. Now we must look to the public to educate their wanton and wayward political masters.