

# A budget lost in the yawning gap between promise and delivery



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As stand-up comedy it was a pretty good line: "The four years of surpluses I announce tonight..." And Wayne Swan got the predictable guffaws and laughter with the opening line of his budget speech.

One of the luxuries of making promises on the never-nevers is that you can't be held accountable. As Mr Swan will not be around to deliver a budget in four years' time, he can claim what he likes. By the time we get to 2016 no one is going to care two

hoots about what Wayne Swan said on May 8, 2012.

Over his first four budgets, Mr Swan has averaged deficits of a little over \$43 billion per year. He tells us that his next four budgets, if he were to deliver them, would average surpluses of \$4 billion per year.

At that rate do you know how long it would take to pay back the money he has borrowed to finance those four deficits? It would take 43 years. The longest journey begins with the first step, but this is such tiny progress.

And here's the worry. That projected surplus is so small: 0.1 per cent of gross domestic profit or 0.4 per cent of revenue that the slightest variation to revenue or expenses will blow it out. And then for all the hoopla the budget will be in deficit anyway.

What will be the 2012 budget outcome? The truth is we won't know until September 30, 2013. And the

chances of Mr Swan making that announcement are very slim.

The government has been foolish to claim that its forecast outcome will make all the difference on interest rates. If that is true – if a \$1.5 billion surplus means interest rates can be cut – then the converse must also be true that all those \$40 billion deficits kept interest rates higher over the past four years than they needed to be and we have been struggling with the dead weight inflicted by this government.

It is quite possible that the Reserve Bank will cut interest rates further – if the economy weakens further – and if that happens the fragile "surplus" will disappear as well. This "surplus" is highly contingent and captive to developments in the economy, not the driver of them.

In any event, the best indicator of whether the government is taking money out of the economy (a surplus)

or putting it in (a deficit) is whether net debt is rising or falling. If it is truly in surplus, then a government will be saving and net debt will be falling.

But as this budget makes clear, net debt will increase in the forthcoming year. After bringing all those off-balance items to account the government is not in surplus at all. The rest relies on a bunch of accounting tricks.

On May 2, 2010, when Mr Swan announced the Resource Super Profits Tax, he said it would share the benefits of the mining boom by, among other things, funding company tax cuts from July 1, 2012, and allowing Australians over 50 to contribute more to superannuation. That company tax cut was abandoned on Tuesday night – before it applied to one company for one day. The concessional cap was delayed to July 1, 2014, after the next election. And that gives plenty of time to announce further delays.

Swan will not be around to deliver a budget in four years' time.

In the 2010 budget Mr Swan said people would get a 50 per cent tax cut on their earned interest income from July 1, 2011. Later that year in the mid-year review he pushed the start date back to July 2012. Last year's mid-year review pushed the start back another year to 2013. On Tuesday it got abolished altogether. It has never taken effect and it never will.

Or take the standard tax deduction heralded in the 2010 budget speech as easing the cost of living for 6.4 million Australians and freeing them from the need to fill in a tax return. It was due to start on July 1. In the mid-year review

last year the start date was pushed back to 2013. On Tuesday night the start date was abolished.

Or take the 2009 Defence White Paper that committed the government to increase defence spending 3 per cent per annum in real terms. In fact over four years to 2015 it will barely increase 1.5 per cent.

Or take aid spending, which Labor has been promising to lift to 0.5 per cent of gross national income by 2015. For the first time it had to include estimates for that year in the current budget. So have a guess what happened? The target was deferred to 2016 – a year that is not in the budget – at a saving of \$2.9 billion.

And have a guess what will happen to the target next year? Anyone familiar with politics has always known that the closer we got to the year of the target, the further Labor would push the promise out.

Such a large part of this budget consists of reversing decisions of previous budgets: one step forward, two steps back. My point here is that these promises. As it had no idea how to deliver them it should not have made them. Once it made them, however, it was obliged to keep them.

The government has developed the habit of over-promising and under-delivering. It is always looking for the next big headline – the "greatest" this and the "biggest" that. It is the yawning gap between promise and delivery that has killed this government. The chasm shows no sign of closing.

The best this government can hope for is to be off the scene before reality catches up with the latest set of expectations it has inflated.

Peter Costello has delivered 12 consecutive federal budgets