

Futuristic budget is devoid of reality



PETER COSTELLO

It was a strange budget speech. It was all about the financial year of 2012-13 – three years away. That year is a happy year when the budget will balance for the first time in five years, and the Australian government will stop running up new debt.

There will be a new tax on mining and the year after, an increase in the superannuation guarantee of 0.25 per cent. All very interesting.

But this budget is about the financial year that starts on July 1, 2010. The budget speech is a request for Parliament to appropriate money to various expenditures over the next 12 months. The Treasurer has to explain where all the money is going and where it will come from. And if the government spends more than it raises it should explain how it will finance the difference.

For the record, government spending will exceed revenue in the next financial year – a deficit of \$40 billion – which will be financed by new debt.

In dollar terms, it is the second highest deficit on record and in percentage terms about the level we had in the recession of 1983 and the recession of 1992. Except we're not in recession, but in the middle of the greatest mining boom since the gold rush.

This decision to focus on the budget-after-the-one-after-this-one worked a treat. Watching Kerry O'Brien interview Wayne Swan on the *7.30 Report*, I was struck by how he focused on 2013. It was like we had gone forward in a time machine.

Swan made the absurd claim the government would balance the budget three years ahead of schedule. What schedule? The one in last year's budget which dumped the schedule of the year before. In 2008, we were going to have surplus as far as the eye could see. In 2009, we were going to have deficit as far as the eye could see.

The 2008 forecast was complacent. The 2009 forecast was a counter reaction. Neither represented reality. Since both were out of date after six months, logic suggests we should be careful talking about outcomes for 2013.

Instead of beating mythical schedules, it would be best to say "it was unfortunate we were wrong in 2008. But it was fortunate we were wrong in 2009. While we may be wrong again, we're now somewhere in the middle".

Should an economy that successfully avoided the financial contagion that came out of America in 2008, and which is undergoing a mining boom of unprecedented proportion, after six interest rate rises in a row be running a budget deficit of 3 per cent of gross domestic product?

Should such a government be rolling out "stimulus" spending, paying inflated prices to build halls at schools that did not ask for them and will have to generate ways to use them?

Should a government in the middle

of a mining boom need to increase the rate of taxation when already raking in record tax from the mining sector?

It was laughable to hear Swan talking before the budget about how he would not engage in an election year spendathon. Because he did the mother of all spendathons last year, allocating new spending for that year, and this, and the one after – spending he has no intention of paring back because the government thinks school halls in marginal electorates will be electorally useful.

This government allocated \$100 billion of new discretionary spending over four years from 2008. Only the Whitlam government compares. But in this strange universe where future budgets are announced rather than present ones, past events are somehow erased.

And the luckiest break the government had in the past year was the collapse of the Copenhagen climate talks. Because Labor's medium term strategy is disarmingly simple – to ride the mining boom for all it is worth.

Whatever it says in overseas environmental forums, back here in Australia it proposes to exploit rising prices for carbon energy and carbon intensive mining for every dollar it can extract. The Treasury forecasts record prices in 2011 and 10 years of boom after that. It estimates Australia's terms of trade will be about 60 per cent higher than the long-term average from 2008 through to 2021. And with nominal growth being so strong, there is going to be a lot of tax collected from rising incomes.

The government's environment policy would have undermined this industry and its tax policy could well do the same. Let us hope a second time it can be saved from itself.

Peter Costello is a former federal Liberal treasurer.