

# It will take years to overtake deficits with Swan's tiny surpluses

**Peter Costello**



Wayne Swan originally announced the 2012-13 budget surplus on May 11, 2010. He has heralded it in each budget and midyear review since. Which makes Monday the sixth time he's announced it. It's a forecast surplus of \$1.1 billion. Never before in the history of budgeting has so little been promised so often.

Back in 2010, I pointed out it would not be until September 30, 2013, when the final accounts were in, before we knew whether a surplus had been delivered, as opposed to just promised.

That is after the next election when people will have lost interest in the 2013 year and, in all likelihood, Swan. The government is claiming there will be a surplus of 0.1 per cent of gross domestic product. If you think economic forecasting is reliable to this sort of accuracy, you haven't been listening to recent developments.

The terms of trade have been much stronger than was anticipated back in 2010 so, if anything, things should have improved. But last year was a real shocker. Although we had above trend growth, the budget deficit was \$43 billion. Part of the reason was the government prepaid a lot of expenses and pushed back some dividends. While it made last year much worse, it bolstered the bottom line this year (2012-13), which would now be showing a deficit except for a level of massaging and manipulation that even a contortionist could only marvel at.

In truth it matters little whether a budget is 0.1 per cent in deficit or 0.1 per cent in surplus. What matters is that over the medium term the government does not spend more than it raises. A budget deficit simply means that at a particular time, a society is prepared to enjoy more services than it is prepared to pay for. If at a later time it spends on itself, then that surplus can pay off the deficit. What is not acceptable is if a society persistently takes benefits and passes the cost on to future generations by running up debt.

The medium term budget policy of the Coalition was to "maintain budget balance, on average, over the economic cycle". Since its first budget in 2008, the government has set its policy as "achieving budget surpluses, on average, over the medium term". There are differences but you can see the common flavour: over the medium term

surpluses should cancel out deficits and each generation should pay for itself. That is why, if the economy dives, the budget can go into deficit as long as there is a countervailing surplus when growth is at trend or above thereafter.

Australia suffered fallout from the 2008 collapse of Lehman Brothers and the associated financial crisis. You would expect the budget position to slip. Since then our terms of trade have soared to all-time record highs. You would expect things to recover.

Leave aside the year-by-year results, because they can be manipulated by "bring-forward" and "push-backs", and focus on the medium term – the time frame for this government's budget policy and the one set by its predecessor. Over four budgets from 2008, deficits have cumulated 12.8 per cent of gross domestic product. Taking this year and the following three budgets, this will be followed by cumulative sur-

pluses of 0.8 per cent (provided the economy grows at trend). Four years of surplus will pay back  $\frac{1}{10}$ th of the four years of deficit. At that rate it would take half a century before we get to the stated goal of "surplus on average". That is not the medium term.

I am not setting up some impossible standard here. I am measuring the projections against the government's own stated goals. And it shows how weak the present policy is.

Another of its goals is to "improve the government's net financial worth over the medium term". This measure includes government debt and its superannuation liabilities. Since it decided to set this goal, net financial worth has plummeted. You see, it is not just that the government has racked up debt. The Commonwealth does not even pay the full cost of its staff. It is not paying the superannuation component of public service entitlements. Nor

does it count this as a cost in its budget. If a private employer tried to do this they would be prosecuted. It's the kind of thing that drives the private sector wild. While the government is telling employers to lift superannuation contributions for staff, it is not funding its own superannuation schemes.

To get back to where net financial worth stood when this government was elected would take accumulated surpluses of about \$240 billion or over 15 per cent of GDP! That puts a surplus of 0.1 per cent in perspective. There is a long way to go just to get back to where we were. Remember that Labor policy was to improve things "over the medium term". I sometimes wonder if the senior members of the government know what their policy is, let alone understand it.

**Peter Costello has delivered 12 federal budgets.**