



Released May 9, 2006

Federal Budget 2006-07 – Surplus would be better spent

Professor Bill Mitchell
Director, CofFEE

The biggest problem with last night's Federal Budget is its bottom line. The surplus of \$10.8 billion will retard economic growth and the purchasing power seized is lost forever. Far from deserving congratulations for the surplus, the Treasurer should be condemned for ripping off the Australian public and critical health, education and environmental services, which are the bedrocks for a fair and sustainable future.

Important budget initiatives - such as spending on mental health services and measures to improve the Murray River – should be seen in context. Why do the mentally ill, their carers, and our river systems need to reach breaking point before we invest? The budget outlays are important but they only marginally respond to years of wanton federal neglect. The Government's pursuit of budget surpluses created these crises yet it remains content to chip away at problems of their own making rather than solve them.

Families and women seeking to return to work have been spruiked as the Budget's big winners. However, measures to increase child care places and the returns from paid work are only valuable if people can get jobs. 1.8 million Australians currently can't get enough (if any) work because of past surpluses. The budget will not generate the number of jobs needed by the unemployed, underemployed and those motivated to search for work by the new incentives.

The increased infrastructure and research spending is welcome because it will create some jobs, improve services and reduce private sector costs. However, more spending is needed but the Howard Government's decade of disdain for public capital formation means that our communities have already suffered from depleted services.

Families facing pressure from petrol price and interest rate hikes should not spend their tax cuts and increased family allowances until they know how the pernicious new industrial relations legislation will impact their wages. The Reserve Bank will also probably view higher benefits and lower taxes as inflationary. To our collective detriment, the Reserve's sole purpose in life is to control inflation through higher interest rates so further rises are pending. My bet is that the budget 'generosity' will be swallowed up in lower wages, higher interest rates and on-going petrol price rises.

Contrary to the Treasurer's logic, the relentless pursuit of budget surpluses is not good economics. It will not help us accumulate future spending capacity to meet the needs of our ageing population. The path to a fair and sustainable future is to maintain full employment through appropriate levels of spending requiring budget deficits.

My challenge to readers is to imagine how much better our hospitals, aged care facilities, mental health services, schools, TAFEs, universities, and recreational facilities could be if the Government had spent the surplus it has ripped off us. Our willingness to applaud the surplus mongers is one of the great ironies in public life.