



Released May 11, 2004

The 2004 Federal Budget – another opportunity squandered

Professor Bill Mitchell
Director, CofFEE

I like the Budget's net spending increases but I deplore its dishonesty and cynicism.

For the last two years, the Feds have ripped \$17 billion off our disposable incomes via Budget surpluses. This forced seizure of purchasing power – or 'fiscal drag' has kept the brake on the economy.

Consequently, GDP growth has not been strong enough to generate enough jobs and over 15 per cent of willing workers are currently underutilised (including underemployed part-time workers and 600,000 unemployed).

Meanwhile, many of us are working harder than ever. While workers have enjoyed only modest real wage gains, the corporate mandarins have failed to re-invest the booming productivity in jobs. Instead, they have made sure their own remuneration has grown handsomely.

The Government's penury has also damaged public schools (despite very generous private school payments), higher education, public health, roads, and countless other services.

With this much fiscal drag, economic growth has continued because of the private credit binge which has generated record household debt. As a macroeconomic growth strategy the combination of credit binge and budget surpluses is unsustainable. The meltdown will be fierce if the economy slows a little and households start tightening belts. The Government is counting on the world economy remaining strong and the housing market staying buoyant.

The Federal government, which isn't in the habit of telling the truth about anything these days, represents their budget surplus rip-off as responsible fiscal management which has kept inflation in check and interest rates low. All of us have been stupid enough to believe this, despite inflation being flat for years and the Reserve Bank being able to set whatever interest rate it likes.

Here's the rub ... it seems that every 3 years the Government redefines fiscal responsibility and kicks its shoes off and goes partying – suddenly expansion becomes the imperative. Welcome to the political business cycle.

The idea that government uses the economy in this way is highly objectionable, given that its failure to spend enough in previous (non-election) years has hurt our most disadvantaged citizens and progressively depleted public services.

Their other myth is that the net spending growth has been facilitated by past budget surpluses. That is arrant lies. Past surpluses do not accumulate. The purchasing power they seized has gone forever. But this budget shows they can spend whenever they want to.

Responsible fiscal management dictates that net spending should increase when social and economic objectives warrant - in contradistinction to pursuing the sleazy objective of winning another election. If they win again, the brakes will be back on next year and they will argue that sound financial management dictates this.

The Budget details are covered elsewhere. The spending increases are highly targeted to ring the right (voting) bells with its core constituency – middle-income families and the rich.

My summary of the budget complexity is this: it induces the poor to have more kids without improving relevant services; it pushes the middle class to work even harder but dangles more money on the stick as a reward; and it gives the rich tax handouts for nothing. Low-income working individuals get nothing. Students also get nothing but have to face the new University fee structure.

Overall, the Budget will be popular which just signifies how short-term opportunism exploits our obsession with individualism. It also shows how we have, myopically, forgotten the benefits of public services.

The Budget provides a test of the ALP's mettle. They now have \$37 billion to play with if they want to eschew tax cuts and target different goals – which might focus on their 'alleged' core issues – the poor, the unemployed, low income workers, health, education and other public services.

Don't get me wrong. Government net spending growth is good (specifics notwithstanding) when you have high levels of labour underutilisation. But it would have also been good last year and the year before that. And ... expanded services would help our society more than tax cuts.

I judge a government by how it assists the poorest in our land rather than the richest. On that basis this budget demonstrates a failed government.