

SE Opinion - Opinion

HD **The budget is built on a big lie - there is no crisis**

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Debt is not a burden where it finances fruitful investment.

The 2014 federal budget is built on the big lie that the Australian economy is facing a debt crisis. The proposition that the "debt and deficit" had to be reduced was the excuse for the even bigger lie before the election that there would be no surprises, no cuts to health, education or public broadcasting and no tax increases.

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Post-election, it was explained that these promises had to give way to the national interest - defined as reducing government debt. To demands by critics of the budget that the government at least admit that it had been lying in the run-up to the election, the response was along the lines of, "You haven't been listening; we always said that dealing with the deficit was always our first priority and that in government we found that Labor had covered up the full extent of the debt problem."

The truth is, the Commonwealth doesn't have a debt problem. Estimated net debt in 2013-14 is \$197.8 **billion**, or 12 per cent of gross domestic product - one of the lowest of the mature industrial countries.

If Australia were a corporation, the directors (cabinet ministers) would be likely to be accused of running a "lazy balance sheet" and booted out by shareholders (voters).

There is no reason a government shouldn't increase its debt if it has unemployed labour resources, growing unemployment, an absence of inflation and inflationary expectations, record low interest rates and - given wise governance - opportunities for investment where the social and economic return on the investment is higher than the cost of capital.

Debt is not a burden where it finances fruitful investment. Christians of the Catholic variety are well represented in the Abbott ministry. Even if they haven't a feel for economics, they should be able to apply Christ's parable of the talents, where three servants were given money to invest by their master. The servant who buried his money for safekeeping had it taken away and he was cast into the outer darkness.

The people cast into the outer darkness by this and future budgets planned by the Abbott government are those dependent on welfare. The impact of the budget on the victims is not only wicked but wasteful in that this budget is a brake on, rather than a boost to, the most vulnerable achieving their full economic potential.

This is not surprising. Over the six years of the Rudd/Gillard government the Coalition banded on about the increase in the burden of debt (\$241 **billion**), in contrast to the 11 years of debt reduction (\$140 **billion**) under the Howard government. Never mentioned in these diatribes was where the economy was in the business cycle, that the prime purpose of budgetary policy is to balance the economy (as distinct from the budget) in order to **iron** out potential destabilising booms and busts.

Prudent budgetary policy during the Howard years was to cut net spending. Also, some \$80 **billion** of the debt reduction was a result of a massive privatisation program. These sales were offset by the fall in

Commonwealth net worth. The reduction in public debt was offset by increased private debt to finance the privatisation purchases. The macro-economic impact was zero.

The Rudd/Gillard period coincided with the downswing in the business cycle precipitated by the global financial crisis - the worst recession since the 1930s Great Depression. It was necessary to pump up domestic demand to offset the collapse in private demand.

Without the net \$40 **billion** a year pumped into the income-expenditure stream by the willingness of the Rudd/Gillard government to finance the spending by increasing debt, Australia would have experienced slower growth, higher unemployment and possibly recession, despite the boost to the economy from the **mining** boom generated by the **Chinese** export boom.

In terms of the impact on growth, inflation and employment, it is not the size of the budget surplus/deficit but the change in the budget surplus/deficit compared with the previous year that measures the inflationary/deflationary impact on the rest of the economy.

According to these criteria, the budget deficit in 2014-15 is one of the most deflationary on record. It will withdraw \$20 **billion** from the income expenditure stream, compared with an injection of \$31 **billion** into the income expenditure stream in 2013-14.

This is a massive deflationary turnaround of \$51 **billion** in the impact of the budget on the economy (equal to a reduction of 3.2 per cent of GDP) - even after allowing for the fact that \$9 **billion** of the debt reduction is due to the increase in Reserve Bank **equity**, which gives verisimilitude to the debt reduction number but subtracts nothing from spending.

The main macro-economic impact of any successful reversal by the Senate of proposed budget tax increases and expenditure cuts will be to lessen the likelihood that the economy will be driven into recession by the full implementation of the budget.

We missed the GFC bullet. Will we get hit by a home-made bullet fashioned by our own neo-cons to give credibility to their debt lies?

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