

A Maggie Thatcher needed for mess

Paul Kerin | *May 11, 2009*

Article from: [The Australian](#)

THE Rudd Government's early complacency, which soon morphed into panic, and its ongoing pandering to vested interests will destroy voters' faith in its economic management credentials.

Tomorrow's budget will hasten the destruction. We'll soon be pining for a Margaret Thatcher type to fix the mess.

I've always voted Labor in federal elections. But I voted for former Liberal leader Jeff Kennett twice in the 1990s, following Victorian Labor's gross economic mismanagement. I'm glad I did. Many Victorian traditional Labor voters did likewise.

When governments fail miserably, many voters bring themselves to vote for tough leaders that they wouldn't stomach in normal times.

We'll soon need a Thatcher, not to mend the holes in the revenue roof but to toss out the garbage that's come through the front door. Labor inherited plenty, but it has piled more on.

Last May, Labor delivered in its 2008-09 budget. During the election campaign, Lindsay Tanner (now Finance Minister) correctly said the Howard government's spending was "drowning in fat" and displayed "drunken incontinence". Kevin Rudd promised to take a "meat-axe" to it.

Yet Labor cut only \$5 billion -- a mere 1.8 per cent -- from Howard's 2008-09 plans and added new spending of \$5.1 billion. It projected real outlays to rise by 9.6 per cent over four years. Not a cracker saved.

Helped by favourable changes in economic parameter assumptions, the budget projected a cumulative four-year cash surplus of \$79.2 billion, with net debt amounting to negative \$106.7 billion by mid-2012.

Since then, spending has skyrocketed and projected receipts have plummeted. The Government's February update forecast a \$118 billion cumulative deficit, with net debt reaching positive \$69.6 billion. It is perfectly sensible to run deficits during downturns, but this Government has grossly overreacted.

Of the \$44.2 billion turnaround in the 2008-09 cash bottom line (from a \$21.7 billion surplus to a \$22.5 billion deficit) forecast in February, \$29.1 billion was policy-driven. Of the \$197.3 billion four-year bottom line drop, \$68 billion was policy-driven --

including the \$10.4 billion Economic Security Package, \$15.2 billion COAG plan and \$41.6 billion Nation-Building Plan.

Recently the Government upped the four-year tax receipts loss from February's \$115 million to \$200 billion.

It has announced substantial further budgetary hits, such as up to \$43 billion outlays on the national broadband network and cuts in emissions permit sale proceeds.

The Government has flagged that tomorrow's budget will provide further economic stimulus still. Even ignoring that, I estimate the 2008-09 and 2009-10 deficits announced tomorrow will exceed \$32 billion and \$55 billion respectively, and that net debt will exceed \$250 billion by mid-2013. In the past half-century, the cash deficit has never exceeded 4.1 per cent of GDP -- that was in 1993-94, when unemployment was running in double digits. Net debt has never exceeded 18.5 per cent of GDP -- that was in 1995-96, the sixth straight year of deficits run to fight high unemployment.

Our unemployment rate is only half of what it was in the early 1990s. Most predictions have it peaking below 8 per cent in 2010 and then declining.

Yet the 2009-10 deficit will exceed 4.5 per cent of GDP -- topping our 1993-94 record. And net debt will exceed 17.4 per cent of GDP by mid-2013, beating the 1995-96 record.

The Government cites nations like the US with bigger relative deficits and net debts than us. But that's irrelevant.

President Obama damned George Bush's "deep fiscal irresponsibility", in running large deficits during seven years of economic growth. And bank bailouts -- unnecessary here -- plus much deeper economic downturns have generated bigger deficits and more debt.

Despite forecasters (including the IMF and OECD) projecting a less severe downturn here, our fiscal response has been one of the biggest.

The OECD estimates that, of all member countries, discretionary fiscal stimulus clearly exceeds 1 per cent of GDP in both 2009 and 2010 only in the US and Australia; this compares to an OECD average of 0.5 per cent each year. And if only the Government had used a "meat-axe" in its first budget, it could have avoided much of the debt it is locking us into.

Many have urged cutting the obvious fat: "middle-class welfare". Last year's budget projected "personal benefit payments" rising to \$94.7 billion in 2009-10, a whopping 33.8 per cent of outlays.

The ABS estimates that in 2003-04, the top 60 per cent of Australian households by equivalised income (adjusted for household size and composition) received 35.9 per cent

of all social assistance. This percentage would be higher now, as subsequent Howard government initiatives were more readily available to higher income households.

Substantial tax concessions also go to high-income households. Treasury expects 2009-10 tax concessions to total \$68.3 billion. The biggest will cover superannuation, GST on food and personal income breaks. All are skewed towards higher-income households.

While we should certainly support those in genuine need, it is difficult to argue that the top 60 per cent of households need help.

Eliminating the (at least) 35.9 per cent of the combined \$184.5 billion personal benefit payments and tax concessions going to these households would save \$66.2 billion in 2009-10 alone, and \$270 billion over four years.

If the Government had slashed middle-class welfare last May, then even if it had been funnelling half of the savings to lower-income households, the 2009-10 deficit would only be \$25 billion -- perfectly reasonable in a downturn -- rather than \$55 billion-plus. And net debt in mid-2013 would be an acceptable 7.2 per cent of GDP (\$100 billion), rather than an all-time high 17.4 per cent.

And this ignores other budgetary "fat" like industry welfare, which was \$6.5 billion in 2006-07 and has mushroomed through initiatives like the \$6.2 billion car plan.

Yet Rudd criticised the Coalition last week for saying they would "halve" his borrowing. He said \$100 billion less borrowing is "equivalent to defunding for four years all payments to the states for health and hospitals in one fell swoop". We don't have to do that. Cutting middle-class welfare would also save more than \$100 billion.

Labor blames its financial mess on the "global financial crisis". Yes, downturns call for budget deficits. But Labor was not proactive in cutting fat and added more.

Then, in panic, it wasted much more.

While Labor is riding high in the polls, voters will become increasingly aware of its mess. Unfortunately the damage that this Government will do to Labor's economic management credentials and voter trust will keep future Labor leaders in opposition for years.

While I can't bring myself to vote Labor at the next election, I can't vote for the Coalition either. Unless one side finds a Thatcher type prepared to clean up the mess and just say no to vested interests, I'll vote informal.

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