# Today’s budget winners may lose tomorrow


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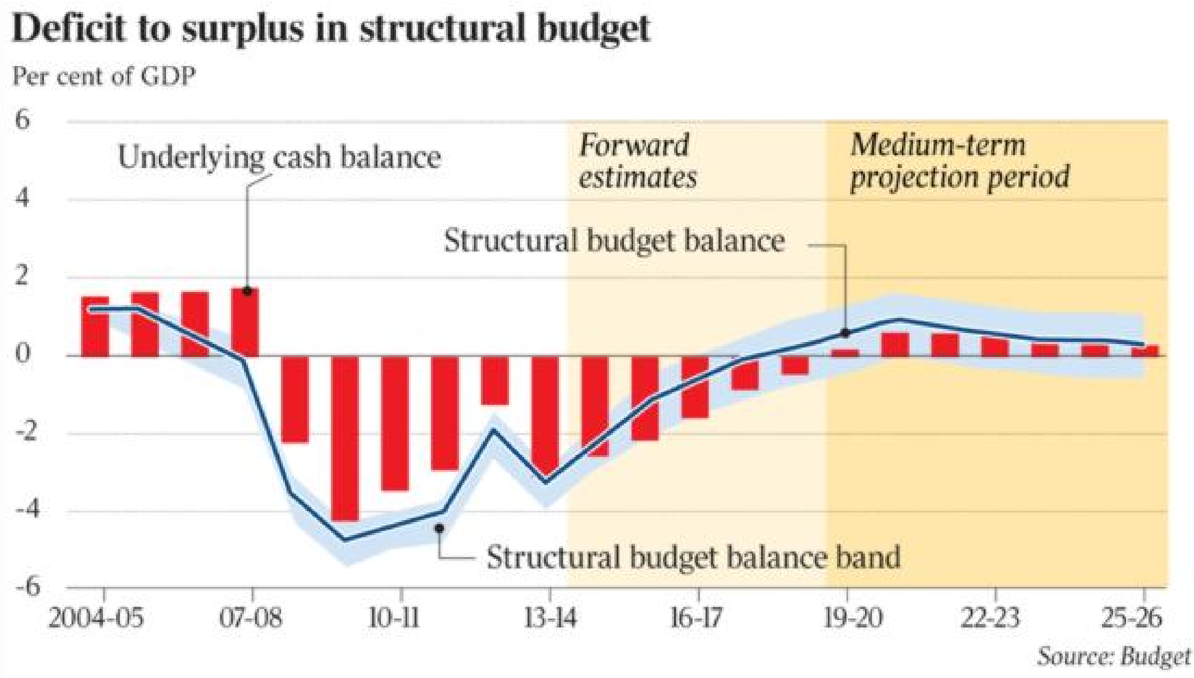


Deficit to surplus. *Source:* TheAustralian

**A crisis is building up in Australian government finances. It’s not an immediate crisis, as Joe Hockey claimed in his budget speech a year ago, lamenting the legacy Labor governments have left him. But if strong action isn’t taken, we’re on track for a doozy of a budget problem in a decade or so — and it’s already complicating long-term investment planning, especially preparation for retirement.**

Currently, government debt is comfortably low. But it’s rising quickly. The combination of weak political leadership, a populist Senate and the public calling for more government spending but without higher taxes, leave us with the prospect of unsustainably high budget deficits over the medium term and longer.

Check the gaps between what politicians have promised and what they’ve delivered — and then consider the perceptive warning in the final quote:

● “In an uncertain and fast changing world we walk tall as a nation confidently living within its means. Come hell or high water” (treasurer Wayne Swan, 2010)

● “We remain determined to return the budget to surplus in 2012-13, and we will get there” (prime minister Julia Gillard, 2012)

● “By the end of a Coalition government’s first term, the budget will be back on track to a believable surplus” (prime minister Tony Abbott, 2013)

● “The days of borrow and spend must come to an end … The age of entitlement is over. It has to be replaced, not with an age of austerity, but with an age of opportunity” (treasurer Joe Hockey, 2014)

● “Our politicians need to start talking the real talk on how we are to collectively afford some of the expensive initiatives the Australian public want. ” (Reserve Bank governor Glenn Stevens, 2015).

It can be done. The Labor Party’s Paul Keating restored surpluses, after shocking us with his warning we’d become a “banana republic” if we didn’t reform.

The Liberal Party’s Peter Costello delivered a string of surpluses — and he did so starting before the China-led boost to commodity prices.

It’s the “structural” deficit or surplus that matters most. Budget deficits are acceptable, up to a point, while the economy is sub-par; and it’s OK for the government to borrow for capital spending on projects with a good rate of return.

Labor’s promised surpluses were a pipe dream. The Coalition government now projects budget surpluses from fiscal year 2020. But they’re small, a long way out, and seem to make unrealistically optimistic assumptions for prospective growth in spending and revenues.

Two examples on the outlays side: the National Disability Insurance Scheme, when fully in place, will probably cost a lot more than the outlays projected in current forecasts; and Australians, on average, are likely to live much longer than projected even in the recent Intergenerational Report (that’s good news, but we need to recognise the costs).

Two examples on the revenue side: future governments will be under pressure to give back at least some of the revenue they would otherwise raise from PAYG “bracket creep” (the process by which wage earners steadily pay more tax as their wages rise through static tax bands); and tax receipts will be lower than projected if, as is quite likely, trend economic growth falls short of the assumed rate of 3.5 per cent.

Here are three consequences for retirement planning.

1. The Coalition parties say they will not introduce new taxes on superannuation, but may have to. The Labor Party proposes two additional taxes on superannuation, to raise $1.4 billion a year on average over 10 years, to make the retirement system “fair” and “sustainable”. Alas, the need for additional government revenue over the medium term and longer are on a far bigger scale.

2. Future governments will be under continuing pressure to keep the age pension at a frugal level — and tightly targeted through means testing on both income and assets.

It would be fairer, and would help future budgets, were a proportion of the value of the family home to be included in the assets test for the age pension. But that seems to be politically unrealistic.

3. The build-up of government debt over the next decade or so would, if tolerated, leave Australian investment markets more vulnerable to global shocks and more volatile than they need to be.

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