

The Australian

Flimsy balancing trick really a lacklustre effort

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SINCE being elected in 2007, Labor has taken policy decisions that have increased revenue by \$24.2 billion and expenditure by \$126.1bn, worsening the budget bottom line by \$102bn.

Now it claims to be filling the hole with a few billion of savings, but so far its efforts have been small, both in absolute terms and in comparison with other advanced economies.

The International Monetary Fund's fiscal update last week highlights how lacklustre the government's efforts have been. Importantly, the IMF concentrates on the structural budget balance, which nets out upswings and downswings and so captures the burden being placed on future taxpayers.

Seventeen advanced economies have materially improved their structural budget balance since the global financial crisis. But not Australia. And six advanced economies will have a structural budget surplus by 2013. But not Australia.

Fiscal recovery is a long way off. One-year specials, particularly tax increases disguised as spending cuts, will not do the trick. What is needed is attention to budget fundamentals, notably public spending.

That was Paul Keating's focus, and in each of three consecutive years he secured falls in the ratio of government spending to GDP, exceeding the 1.6 per cent Wayne Swan has foreshadowed.

In contrast, the savings the government has announced merely postpone spending, for instance on defence, shifting the problem beyond the forward estimates. Meanwhile, poor-quality spending, such as the billions being thrown at the National Broadband Network, continues and is not properly accounted for.

Fiscal consolidation has never been achieved with such shenanigans.

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