Federal budget 2013: expert reactions

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Australian Federal Treasurer Wayne Swan has handed down his sixth budget, facing an almost impossible task: how to reconcile an enormous revenue shortfall with big spending promises, all while keeping the voters happy in an election year?

Everyone has an opinion, but we have gone straight to the academic experts for insight into what the 2013 budget means for the economy, health, the environment, science and politics.

Further reading: Michelle Grattan covers the breaking budget news here. Phil Lewis, Professor of Economics at the University of Canberra, joined Michelle in the budget lock-up and shares his insights here.

Economy and business

John Quiggin, Professor, School of Economics at the University of Queensland

Facing virtually certain defeat, the Gillard-Swan government had the chance to set out a bold alternative vision that would have represented a challenge to its likely successor, and offered its disillusioned supporters a reason to return.

Such a vision would have started with bold ideas like the National Disability Insurance Scheme (NDIS) and the Gonski scheme, but would have presented Australian voters with the inescapable fact that, if we want such benefits, we have to pay for them through higher taxes.

Instead, the government has robbed Peter to pay Paul.

The students who benefit from the Gonski reforms at school will pay the cost in the form of larger classes and fewer course options when they reach university.

The NDIS is, at least, partly paid for through the higher Medicare levy, but much of the cost has been shoved on to the already impoverished states.

Overall, the government projects a reduction in the ratio of expenditure to GDP, even as these expensive commitments are added.

What was needed here was a challenge to voters to make a clear choice between better services, funded by higher taxes, and continued public austerity, allowing more private spending. The way to make this explicit would have been to raise top marginal tax rates and offer the states an increase in the rate of GST.

Instead, we have more of the same, most of which will either not pass Parliament or be repealed when the Coalition returns to office in September.

David Willis, Senior Lecturer in Economics and Finance at Queensland University of Technology

I don’t see this as an election budget at all, there are no general sweeteners in there – they’re not giving anything away to buy your vote.

But there are some good structural changes that really should have started last year to try and get the budget to move into surplus. For example cutting the **baby bonus** and looking at other income measures.

The **infrastructure** spend that has been announced is capacity building for the future. So when the economy does start moving in a positive way, we’ll be ready to take advantage of that. The education and disability reforms are also positive.

But the **deficit** is rather large – probably more than anyone would have accepted or expected; just short of **A$19 billion**. Some of this is about lack of revenue but some of it is lack of structural discipline in the years previously. But they have started on those changes now.

The budget relies on many assumptions – on the value of the dollar, the revenue that the government may or may not get in. Whether or not this future proofs the economic growth and reasonable levels of employment, if we assume all of those, then it's not a bad start. But they are large assumptions and as we've seen over the last 12 months previously how those assumptions can be quite wrong.

But on Swan's ten year forecasting, it's really hard to project for more than a couple of years out with any degree of certainty. So a ten year plan is not necessarily financially anywhere near prudent or realistic.

Neville Norman, Associate Professor in Economics, University of Melbourne

On the expenditure side, this is philosophical and more like a traditional Labor government. If it wanted to do this responsibly, it should have lifted tax rates, especially GST. A hoist of the GST rate from 10% to 15% as the Brits commonly do would have been the responsible way to traverse to surplus. Lifting income taxes, which includes the medical levy uplift, just provoke tax escaping.

The carbon price should either be full to market at all times or drop it. Fix-pricing carbon is dumb.

On super changes, some of the changes are sensible and roll back the overly generous Costello super-handout changes to the oldies announced in 2005.

The entire impact of the budget is over-shadowed by the spectre of a dying government struggling to explain and crawl out of its own fiscal hole. I don't want to be political, but the only credible return to surplus will come with a change of government. And there my fear is that they might do a UK Cameron Government and overdo it!

There is now every temptation for Mr Hockey or whoever reads out the 2014 Budget to slash and burn their way to an immediate surplus: no election in sight, and every chance to prove they can get to surplus quickly.

Arusha Cooray, Senior Lecturer in Economics, University of Wollongong

The positives to this budget is that the government is on its way to reducing the size of the **budget deficit**, which is lower than last year.

But disappointing is the fact that the increased funding to schooling has come at the expense of lower funding for universities. This could have negative impacts on the quality of university degrees, quality of teaching staff and exclude students from lower income groups from access to tertiary education.

The abolition of the **baby bonus** could affect lower income groups adversely by contributing to an increase in income inequality.

The decision to defer long term **aid** commitments and cuts on aid to **asylum seekers** reduces Australia's commitment to humanitarian program. This, however, could be in an attempt to win votes.

Ben Spies-Butcher, Lecturer in Economy and Society, Department of Sociology at Macquarie University

The Budget highlights an ongoing challenge for Labor, which has tried to pursue a sort of "low tax" social democracy. Australia has tried more than any other country to target assistance, promoting equity with very low taxes, but I think we are now seeing the limits of that strategy. We can have decent services or very low taxes – not both. The ongoing deficit is a sign of Australia's low tax base.

It is important Labor has committed to important new spending in education and DisabilityCare, and its welcome Medicare levy will increase marginally to support that spending. There have been some small moves to claw back the grossly inequitable tax concessions for superannuation and business.

But given the failure of the mining tax and without broader changes to increase the tax base the government is forced into a series of bizarre decisions, such as “winning the education race” by cutting higher education spending. And the deeply disappointing decision to leave Newstart so far below the poverty line – especially given more unemployed people are unemployed for longer.

The other trend is for governments to lock in their opponents through the budget. Howard locked Labor into expensive and inequitable tax cuts that have caused the structural deficit. Labor is now locking in spending for education and disability insurance – fortunately reforms that at least add to productivity and equity.

Foreign aid

Stephen Howes, Director, Development Policy Centre at the Australian National University

I think it was a good outcome for the aid budget, in terms of the quantity of aid — an increase of **half a billion dollars**. But mine is a minority view. Most in the aid sector aren’t happy with the outcome because of the government’s **deferral of its target** to get aid to 0.5% of Gross National Income (GNI) by another year. The government deferred that target last year by one year to 2016, and they’ve now deferred it again to 2017. People have also been upset by the fact that the government is going to continue to **tap the aid program to fund asylum seeker support** to the same extent of $375 million a year

In my opinion, the 0.5% target was never a credible target; it would have required massive increases of about $1 billion a year, year-on-year; I don’t think we have the political support for that. And you can criticise the funding of asylum-seekers, but that was a decision made last year.

Overall, I think it’s a good outcome for the Australian aid budget to have a **10% increase** in what is a tight fiscal environment. It takes our aid program up to some **$5.7 billion**. Looking at it over the longer term, some 10 years ago, our aid program was about $2 billion. So we have had a massive increase in aid; we are now probably about the sixth biggest aid donor in the world. That’s an achievement.

What I’m more worried about is the uncertainty around the future of aid, because we don’t have a firm target anymore. Since the government has kept delaying the 0.5% target, we don’t really know whether it is committed to it. And the Opposition has already said that they’re not prepared to attach a date to the achieving the 0.5% target.

All that makes it very hard to plan for the future of aid. Aid projects require multi-year funding and therefore they need a level of predictability. The current uncertainty around the aid program’s future is going to damage effectiveness.

Education

Simon Marginson, Professor of Higher Education at the University of Melbourne

The budget is focused on short-term politics rather than long-term nation-building. This is inevitable, the sign of a government in trouble and an election four months away.

Even the two headline reforms – school funding and disability support - have been chosen so as to maximise the Government’s reach across the electorate on 14 September. Both affect very large numbers of Australians. These are good and necessary reforms. Yet they have not been properly funded (a 10-year implementation is not authentic), and for this reason they are especially vulnerable to a change of government. The school reforms, in particular, are unlikely to survive under the Coalition.

If the government had put the reforms first, it would have funded them over a three- or four-year timescale and they would have been that much harder to remove.

Instead, its primary concern was to minimise the deficit, again for short-term political reasons. Yet, is there are fundamental economic or political difference between a deficit of $18 billion and one of $24 billion?

In tertiary education, it is fortunate that there were no further cuts to **research funding**. And that the government continues to fund growth in university places through the demand-driven system.

However, the previously announced **$2.6 billion in higher education funding cuts** (the "efficiency dividend") were confirmed in the budget. This is a terrible decision. It ignores the expert advice provided by the Bradley review of higher education in 2008 and the Lomax-Smith base funding review of 2011. Both recommended substantial increases in the financing rate of government-funded student places.

The government now seems unable to treat higher education funding as an investment in national infrastructure, with spending targets determined by long-term national needs. Instead, it is following the previous Howard government, in treating higher education as a source of short–term fiscal savings.

The cynical politics underlying this is that there are less votes in the universities than in the schools or disability. Meanwhile, East Asia and Singapore, and most of North West Europe, are increasing their public outlays on higher education and research. We will fall behind.

The public funding of tertiary education in Australia at 0.7% of GDP (2011) is well below the OECD average of 1.1%. The difference is $6 billion per annum. Now we are to cut further.

Health

Stephen Duckett, Director, Health Program at the Grattan Institute

This budget contains mostly small changes here and there from a health perspective. The funding of DisabilityCare is a major initiative and represents a significant step forward for equity.

The slower indexation of **Medicare rebates** could result in access problems for consumers if doctors increase their fees ahead of the rebate changes.

This budget does not future proof Australia. A number of decisions have not been taken to eliminate waste from the system, such as addressing the excess prices in the Pharmaceutical Benefits Scheme

There are small increases in highly targeted research programs in **cancer and aged care research**. The McKeon proposals to prioritise relevant health services research have not been pursued, which is a disappointment.

Hal Swerissen, Professor of Health Policy, La Trobe University

The budget delivers on funding for the NDIS, the government's major policy initiative. It also includes funding for **dental health** reform and has there is money for **cancer** prevention, new **pharmaceutical listings**, **rural incentives** program for GPs, and **aged care** reform.

The budget makes sensible savings by removing **double dipping on Medicare by GPs**, removing the net medical expense tax offset, increasing the general threshold of extended Medicare Safety Net and realigning of Medicare Benefits Schedule indexation arrangements.

Overall, apart from the NDIS, the budget continues health policy directions already in place. As with social services, significant real growth in the health budget is projected over the forward estimates to deal with population growth, population ageing and health inflation.

Politics and Society

Carol Johnson, Professor of Politics at the University of Adelaide

In removing the Howard sweeteners, Labor has been left with few sweeteners of their own.

This is very much a post-Howard budget – there was always the problem that Howard failed to invest the benefits of the mining boom. If only Australia had set up a **sovereign wealth fund** like countries such as Chile, we'dbe potentially in a much better situation than we are now. But Howard and Costello chose to spend a lot of the mining boom revenue on things Labor sees as **"middle class welfare"**. However, removing things like the Howard government's Baby Bonus means they are running out of sweeteners themselves.

When it comes to returning to surplus, it's very hard to assess whether that will happen. Budget forecasts have been so wrong. During the Howard years Treasury tended to underestimate revenues, so the government got nice surprises, but during the Gillard government they have been over-estimating revenue, so its very hard to trust even Treasury projections, never mind government spin.

I think what voters will remember is that the government was unwise enough to say "no ifs, no buts, we'll deliver a surplus". This government was basically making a promise any sensible person must have known in the current economic climate they could not deliver on.

What the government could have been doing was preparing the electorate for the reality that we are now living in very difficult economic times and they might have to run a deficit. This government has singularly failed to do that – it was a very basic strategic mistake.

On the other hand, the public will like education expenditure and the National Disability Insurance Scheme; some people will recognise the need for more infrastructure spending.

But I don't think the things the public like about this budget will be enough to get them back into office.

Clive Bean, Professor of Political Science, Queensland University of Technology

I think it was unlikely this budget was ever going to save the government.

In some ways, the government may have done the best job it can. By that, I mean I think that they abandoned usual election year strategies of spending and proposing new measures that are attractive to voters.

Instead, the government is showing it is fiscally responsible and restrained but I don't think it can really work in its favour. It is an unusual strategy, not one that is likely to win over a huge number of voters. It is not going to turn around the fortunes of the government.

The **deficit** is pretty substantial and not withstanding the fact that we knew there would be one, it is even larger than predicted so that's a fairly significant feature of the budget. It can't be seen in a positive light.

On the mineral resources rent tax, the government got the revenue from it wrong, not specifically in this budget but overall and particularly in terms of the original predictions of revenue compared to the current realities.

The **NDIS** scheme will be a positive for the government but that was well foreshadowed, so will not bring a major additional boost via the budget.

Surprisingly, the abolition of policies such as the **baby bonus** may be good political strategy and, although it will not be welcomed amongst some voters, the broader view was that it was an overgenerous policy and abolishing it could be seen as a clever strategy to make some budget savings.

Zareh Ghazarian, Lecturer, School of Political and Social Inquiry at Monash University

Out of his six supply bills presented to the House of Representatives, the 2013/14 Budget was perhaps the most difficult one for Treasurer Wayne Swan to prepare. The government faced a unique set of challenges, both in terms of the economic situation and the political climate it operated in.

On the economic side, the government had to somehow manage the need to keep spending on important policies while having less income than it planned for. The Treasurer's approach of outlining a ten-year plan was bold. Doing so gives the Labor Party's flagship policies of DisabilityCare and school funding reforms the best chance of long-term survival even if the government loses the September election.

The spending on **infrastructure** programs, while cutting back on some social welfare programs (such as the baby bonus), suggests the government and Department of Treasury still want to pump-prime the economy and stimulate growth in an uncertain global economy.

The other problem the government faced was a political one. After laying out plans for a surplus last year, the government has presented a deficit. The problem here is that it makes Prime Minister Gillard and Treasurer Swan easy targets for the opposition. Indeed, the Coalition will highlight this as yet 'another broken promise' and tie it into their broader narrative that the government can not be trusted.

The Budget is an opportunity for the government to reclaim the political debate. The prime minister and key ministers will be out selling their vision over the coming days.

The pressure will now be on opposition leader Tony Abbott to outline the Coalition's stand on economic policies when he takes the floor to respond to the Budget on Thursday night.

Environment and climate change

Paul Burke, Research Fellow, Crawford School at the Australian National University

The forward estimates are showing the effects of the decision to link Australia's **carbon price** to the EU emissions trading scheme. The alternative model of a predictably rising carbon tax would provide better results in terms of both emissions reductions and government receipts.

It is welcome news that the government is cutting **industry compensation for the carbon price**. It is very hard to argue that compensation of the coal industry is the best possible use of public funds. The lower estimated future carbon price means that industry assistance is even less justified than it was when initially planned.

The reduction in spending on renewable energy is perhaps a warranted saving. The idea of policies like a carbon price and the Renewable Energy Target is they provide the private sector with the incentive to invest in low-carbon energy. If so, it isn't clear that large government spending on renewables is justified.

Given the challenging fiscal outlook, there are some obvious missed opportunities in this budget. One is the failure to relink the rate of **petrol excise** to inflation. Petrol excise is a shrinking tax, making it more challenging to fund things like transport and other infrastructure. Another missed opportunity is in not reducing **fossil fuel tax exemptions**.

Lin Crase, Professor of Applied Economics, La Trobe University

A minority government was always destined to struggle with promoting the notion of a budget surplus on the one hand whilst trying to appease disparate interests on the other. It is also easy to see how the current political climate favours "ticking a box" on plans or schemes, as opposed to seeing them through to fruition.

Perhaps this is no more apparent than in the case of the much acclaimed, but now largely forgotten, Murray-Darling Basin Plan. The federal government can justly take some credit for managing to put in place a plan for restoring some environmental balance in Australia's most productive river system. However, it has done so at a significant cost to taxpayers, far greater than what was actually required.

Low cost options for taxpayers, like simply buying water rights, were deliberately stalled in preference to subsidies for irrigation farmers. The budget shows that these are set to continue with a price tag of about **$1.8 billion** being added to the billions already spent.

There is also a penchant for trying to engineer environmental outcomes and this also receives support in the budget. The idea behind these subsidies and so-called "works and measures" is that the chagrin of farmers would be kept in check while an opportunity was provided to test if the additional water made a difference to the environment.

However, in a peculiar twist, very little money will be on hand to actually undertake these tests. About **$2 million per year** is set aside to ensure the 'best available science' is available to support the use of environmental water.

This is occurring at a time when NSW and SA have both indicated they will reduce funding to the Murray Darling Basin Authority, the body that sponsors most of the science in the basin.

It's hard to see how the sums available from the Commonwealth will be adequate given the size and diversity of the basin. Accordingly, there is a real risk that the unseemly and uninformed debates about how much water is required for the environment will be repeated and there will be no means of adjudging if the current water holding is being well used.

Taxpayers might feel justifiably duped by these arrangements – with such a large amount of money passing to a small number of irrigators, the least taxpayers could expect is some reasonable scientific assessment of the so-called environmental benefits.

Infrastructure

Cameron Gordon, Associate Professor of Economics at the University of Canberra

Infrastructure, if done right, is generally a long-term investment which generates a return in the future that is beyond what is spent today.

Infrastructure Australia has advised in the past that such spending should be done strategically, focusing on important network investments such as key rail and road corridors and communications hubs, increasing the impact and reach of spending through efficient funding mechanisms, such as public-private partnerships, and be tied with governance and regulatory reforms that allow for efficient use of any facilities ultimately built.

Past Commonwealth budgets have tended to take more of a piecemeal approach than this, funding projects but not necessarily tying them into a larger program or strategy. Such projects tend to be local, of varying size, and meet pressing needs, such as remediation of black spots on highways. There are a couple of exceptions, such as the National Broadband Network (NBN) or the stimulus spending, the latter now unwinding, and some policy frameworks with little money attached.

This budget seems largely in step with that past pattern, with the greater share of funding going to expenditures that economists might term as current consumption.

A headline number was provided by the Treasurer in his address tonight – **$24 billion on new infrastructure investment** – but most of the talk was about spending on health, education and human services.

The **headline health number (around $64 billion** according to the Treasurer's address) is, for example, three times the headline infrastructure number.

This is not to say that this spending has no return. There is just much more of an emphasis on "human capital" rather than "physical capital".

Urban road and rail were specifically mentioned, and the benefits of investment to lower urban congestion were claimed as the main reasons for such spending.

There are a couple of **big projects**, "transformational projects" as Swan termed it, like Brisbane's Cross River Rail and Melbourne's Metro. There is thus a bit more transit than is normally in a federal budget.

But much of the list consists of road projects in various cities that are not tied together into an overall network plan or with an overarching strategic vision.

Also a good portion of the infrastructure spending remains on the continuing rollout of the NBN. There was an explicit mention of private participation but no details.

Overall, there are not many surprises in the budget with respect to infrastructure. The Commonwealth has generally left much of the heavy lifting here to the States, which is a pattern that has prevailed for much of recent history.

Science and Research

Matthew Bailes, Pro-Vice Chancellor (Research), Swinburne University of Technology

I think the overall message is that the government is running out of money. It is having to make cost savings and universities are a soft target.

It's good to see the government putting some money back into the National Collaborative Research Infrastructure schemes. It's increased, although it's a shame that it's coming through in dribs and drabs and there is no long-term plan for maintaining research infrastructure.

There are various bits of other research infrastructure that are in danger of becoming rundown. The government gives us money to fund facilities but not for long-term upkeep.

I think the Australian economy is still one of the strongest in the Western world. But to take money from tertiary education and give it to high schools would appear short sighted.

Any time you cut education, it's hardly clever. It might help you plug a short-term budget hole, but in the long term, the only thing that will separate us from the rest of the world is the quality of our education and research infrastructure.