The Abbott government is hoping an A$11.6 billion infrastructure spending package, combined with a $20 billion medical research fund, will help soften the blow of widespread tightening of health and welfare spending in coming years.

Making the case for the cuts required to deliver the budget to surplus by the start of the next decade, treasurer Joe Hockey said prosperity was not a gift or a matter of luck, but rather “needs to be earned”.

The budget suggests all Australians should contribute to the task of delivering surpluses and lowering government debt, including business, state and local governments, high income earners, families, individuals, seniors and workers.

As widely speculated, the government will increase the age pension age to 70 by 2035. It will also move to index all pensions to the CPI, rather than wages, from September 2017.

A $7 co-contribution payment for GP consultations and out-of-hospital pathology will come into force in July 2015, and will also apply to concession card holders and children for the first 10 services.

Young people will be expected to be “earning, learning, or participating in Work for the Dole”, and those who are receiving welfare payments, including Newstart and family tax benefits will see a freeze of eligibility thresholds.

Health and education funding will be pushed back to the states, with the government withdrawing from earlier agreements to increase public hospital and schools funding – saving some $80 billion over ten years.

Hockey said if the government wanted to remove unnecessary duplication it had to accept responsibility for what it runs. “The states run schools, the states run hospitals,” he said.

Big business is expected to welcome the abolition of the mining and carbon taxes, together with a 1.5% cut to the company tax rate, however some $845 million of industry assistance will be cut, including more than $300 million of automotive assistance. The ethanol production grants program will cease.

Breaking its promise of no new taxes, the government will go ahead with its widely speculated “budget repair levy” which will see Australians earning above $180,000 pay 2% in additional tax. Those earning above $300,000 will pay an additional $2400 in tax each user for the next three years.

Australians can also expect to pay more for petrol, with the reintroduction of fuel excise indexation from August this year.

As part of its pledge for “smaller government”, the government will cut 230 government programs, and 36 government bodies, including the Australian Renewable Energy Agency and the COAG Reform Council. Several bodies will also be merged, including the Office of the Australian Information Commissioner into the Australian Human Rights Commission.

An additional 2000 public service jobs will be cut, on top of the 14,500 already slated to go in the four years to 2017. The Australian Taxation Office is expected to see the largest reduction of jobs. There will also be a one-year freeze on the salaries of MPs and senior public servants, with the Gold Pass entitlements scheme to be wound back and eventually abolished.

Foreign aid will also be hit, with cuts of $7.9 billion over five years.

Public broadcasters will also be expected to help improve the budget bottom line, with a reduction of base funding to both the ABC and SBS of 1% each year over the next four years.

Rolling expert responses follow.
The public service

Helen Dickinson, Associate Professor, Public Governance at University of Melbourne

Informed by the Commission of Audit, there are plans in the budget to transform government: to make it smaller, more efficient and better targeted. As part of their commitment to “smaller government”, 230 government programs and 36 government bodies will be cut. There are also propositions to merge a number of government bodies and cut 2000 public service jobs on top of the 14,500 that were announced last year.

A freeze on salaries for MPs and senior public servants and a reduction in entitlements for these groups will also reduce spending over time.

Abolishing government bodies and reducing the size of the public service is a tried and tested approach in the reduction of government spending. It gets media headlines and often support from the public. Many members of the public – and probably some political servants – might struggle to tell you what many of these programs and organisations actually do.

The budget argues that these parts of government are inefficient, but simply abolishing vast swathes public services and public servants often misses the causes of waste. These cuts will not produce the anticipated efficiencies even if they do reduce spending in the short term.

If federal government is serious about transforming government and public services for the future, slashing spending is not the place to start.

Janine O’Flynn, Professor of Public Management at University of Melbourne

The first stage of what will inevitably be a multi-stage transformation of the public service was revealed in the Abbott government’s first budget. As Hockey announced, he was in the business of redefining the role of government people’s lives, not in weakening it. He made it clear that this smaller and less intrusive version of government would not need the big, complex and seemingly unwieldy machine it currently has. In this sense, there were no surprises.

Right now it is smash-and-grab time as the government cleans up the public service. A major program of mergers, sales, cutting-and-pasting and abolitions are on the cards. Notable on this list are the creation of the Border Force, which will require a major (and difficult) merger; the COAG Reform Council will disappear; and the Royal Australian Mint and Defence Housing will be sold.

Next up will be the slash-and-burn. A much leaner and meaner (or sustainable) welfare state, a focus on cutting and consolidating programs, slashing aid, the end of industry assistance, and pushing responsibility back to the state will inevitably require a smaller public service.

Slated to go are 16,500 public servants – around 10% of the current public service – as the role of government is redefined and its bureaucratic machine is given an overhaul.

Few would argue with the premise that it is time to rethink the way in which we do the business of government in Australia. Our bureaucratic machine is complex: we have massive duplication and role overlap within the federal government and between it and the states. We saddle those that work with government in the delivery of services with compliance models that stifle them and turn them into cogs in a bureaucratic machine.

Clearly things have to change, but none of the announcements tonight are silver bullets nor are they cost free. Anyone that thinks so – the government included – has missed the lessons gleaned from the last two decades of experimentation in public sector reform.

Defence
Peter Dean, Fellow & Director of Studies, Strategic and Defence Studies Centre at Australian National University

Going into the budget, the Coalition government had a number of issues in defence spending that it needed to address. This included a commitment in opposition and in government from Abbott and defence minister David Johnston to a target of 2% of GDP to be spent on defence within a decade.

Other big considerations are considerable capability acquisition decisions on the near horizon and structural reform in terms of spending on personnel, investment and ongoing operations.

Tonight, Joe Hockey kept the 2% GDP pledge, with a steady-as-she-goes approach and a deferral of the big reform decisions to next year’s defence white paper.

The positive for defence was that it moved forward and not backwards: a considerable achievement in a budget that hit hard in areas such as health, education and social services. The government brought forward $1.5 billion in defence from 2017-18 to earlier years and is introducing efficiencies of $1.2 billion over four years. All of this will be reinvested in defence capability.

Overall, there is an extra $490 million for capability investment in this budget cycle. This is a positive outcome. These measures outline 3.7% growth in real terms to defence from 2013-14 to 2014-15, although there are some initiatives such as the new the gap year program and ongoing operational costs for the Middle East and for the defence contribution to border protection.

The big headline from this year is the reduction in Department of Defence public servants by 1200 and 300 less service providers by 2017-18, saving $606 million over the next four years.

Overall, though, there is a lot still to be detailed and this is being left to the defence white paper in 2015, which as the budget papers state will set “out how the government will increase defence spending to 2% of GDP”. This is a very difficult task going forward, no matter how the government slices and dices the numbers.

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**Public broadcasting**

**Andrew Dodd, Program Director – Journalism at Swinburne University of Technology**

The ABC has been clobbered in tonight’s budget. It has lost nearly $120 million over the next four years and looks likely to lose more as the budget papers suggest that there are further cuts to come.

Both the ABC and the SBS will lose 1% of their annual budgets each year for the next four years, amounting to $35-40 million for the ABC and $8 million for SBS. The ABC will lose an additional $80 million over the same period, thanks to the government’s decision to close its international television service, the Australia Network.

In response, the ABC foreshadowed cuts to jobs and programs. ABC managing director Mark Scott said:

> We will need to make funding cuts, while trying to also save money to invest in new priorities to ensure the ABC remains a compelling feature of the Australian media landscape.

However, the ABC believes that there is worse to come, because the budget papers make clear that the 1% efficiency cuts amount to just a “down payment” on future savings resulting from the Lewis efficiency study – which was commissioned by communications minister Malcolm Turnbull in January.

“I’m totally sceptical about the Lewis review,” said one ABC insider. “Lewis wasn’t here long enough. His report is flimsy. He makes assertions [about possible savings] but doesn’t back them up.”

Scott said the budget “made it clear” that the Lewis review would “impose additional demands on ABC budgets
over the next few years”. The ABC did not specify what programs would be affected and how many jobs will be shed. However insiders are expecting widespread job losses.

The cuts come on top of the government’s recent Commission of Audit which recommended that a further $30 million annual payment for digital transmission costs not be renewed. This would mean a further reduction in the ABC’s recurrent expenditure.

In the ABC’s post-budget statement, Scott said the cuts amount to a broken promise:

> The funding cuts will be disappointing for audiences. The government gave repeated commitments before and after the election that funding for the corporation would be maintained.

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**Climate and energy policy**

**Frank Jotzo, Director, Centre for Climate Economics and Policy at Australian National University**

A major budget hit comes from the planned changes to climate and energy policy. They will cost the budget in the order of $15 billion over the next four years, and probably over $20 billion between now and 2020. At the same time, less will be done to cut emissions and modernise the energy sector.

Abolishing the carbon price and replacing it with “direct action” subsidies would hit the budget hard. The savings from other cuts to climate change policy programs will be much smaller than the budgetary losses from this change.

The carbon price would raise over $7 billion for government during 2014-15. It would raise around $2-3 billion per year as an internationally linked emissions trading scheme in future years, as foreseen by the legislation in place now. Between now and 2020, the budget shortfall from getting rid of the carbon price could be in the order of $20 billion.

The planned “direct action” policy further draws on the budget. The government has budgeted $2.55 billion for the Emissions Reduction Fund, paying subsidies to emitters.

Axing the Clean Energy Finance Corporation (CEFC) would probably be another cost to future budgets, as the CEFC has been running a profit. Abolishing the Climate Change Authority and Climate Commission saves only tiny amounts of money. Cutting back on the Renewable Energy Target, as the government is thought to intend, has no direct effect on the budget.

Getting rid of the Australian Renewable Energy Agency will bring savings, albeit relatively small ones. Estimated savings to the budget are $1.3 billion in total, most of that towards the end of the decade. The savings come from cutting future grants for next-generation renewable energy technologies, which can help make a lower cost clean energy system possible.

All told, the proposed changes to climate policy will be a cost to the budget bottom line of around $16 billion over the next four years, and a total of probably over $20 billion between now and 2020. At the same time, much less will be achieved to carbon emissions.

On the bright side, indexing the fuel excise to inflation has been long overdue. It will bring in an estimated $2.3 billion over four years, and increase the incentive for people and businesses to buy smaller, more fuel efficient cars.

But more remains to be done: tax exemptions for aircraft fuel cost the budget $1.3 billion in 2014-15, and fuel tax credits for diesel in mining and agriculture mean the public purse is missing out on an estimated $27 billion over the next four years.
Social policy and welfare

Veronica Sheen, Research Associate, School of Social Sciences at Monash University

There are some progressive measures in the budget, most particularly the “budget repair levy” for people with incomes over $180,000. Arguably there is a case for reducing middle class welfare through reducing the income levels for access to Family Tax Benefit Parts A and B, although this will hurt some low income earners. It is commendable that low income single parents with a child between six and 12 will be given a top up of $750 as compensation.

But the budget ushers in a new suite of social risks amongst Australians. A social risk is essentially a risk of poverty, deprivation and social exclusion. The social safety net exists to minimise such risks primarily through adequate income support with fair eligibility criteria. But affordable health care, and programs that promote social inclusion (particularly through employment), are also important in the mix.

New social risks are cemented in this budget in several ways for particular groups by renting holes in the social safety net.

Young people will be more exposed to poverty through the change in the increase in eligibility age for Newstart from 22 to 24, forcing them to remain on the lower Youth Allowance. While the Newstart Allowance itself is very low at $255 per week, the Youth Allowance is lower still at $207 per week for a single person living away from the parental home. It is an odd response to rising youth unemployment.

In addition, people up to the age of 30 must demonstrate appropriate job search and participation in employment services support for six months before they are eligible for either Newstart or Youth Allowance – although prior workforce participation may reduce this waiting time. They will then be required to participate in 25 hours a week Work for the Dole.

These measures are a particularly troubling aspect of the budget, most certainly pushing many into dire poverty and reducing their capacity to undertake fruitful job-seeking.

Surely the focus should have been on efforts to promote access to education and training, and expansion of programs such as Youth Connections which foster participation and social inclusion among young people.

People under the age of 35 on the Disability Support Pension (DSP) will be subject to a reassessment of eligibility with a view to greater levels of workforce participation. But this will lead many into long term unemployment and reliance on the much lower Newstart payment. Experience in the UK of the same policy has been shown to have devastating and counter-productive effects and is poised to increase poverty and social exclusion for this group.

It is puzzling why there is no additional resources to help people who may lose the DSP payment in the new assessment regime.

Older Australians and other pensioners will be affected by changed indexation arrangements which will reduce the overall value of pensions. It is understandable that there are concerns about access to pensions for people with relatively high value assets but many pensioners are poor and will be hurt by the lower rate of increase in the value of the pension.

Just as these groups will be facing a loss or reduction in income, they will be subject to a Medicare co-payment of $7 for up to 10 visits per year for concession card holders as well as an increase in co-payments for PBS prescription medications. Casual and low-paid workers will take these health cost increases very hard.

The pension eligibility age will rise to 70 by 2035, affecting people born after 1965 and aged now under 50. There is a commendable $10,000 support program to encourage business for employing people on Newstart or DSP over the age of 50. But much more needs to be done for retraining older workers for jobs in the new economy, especially those workers now in their 40s and 50s who will be affected by the ongoing changes in the economy and industry.
Ben Spies-Butcher, Lecturer in Economy and Society, Department of Sociology at Macquarie University

As expected, the government has targeted pensions for cuts. People will have to work longer, and pensions will become less generous over time. This comes only a few years after pensions were increased due to concerns over aged poverty, which is higher in Australia than most rich countries.

The changes to indexation will see pensions increase at the rate of the unemployment benefit: a system which has seen these benefits fall below the poverty line.

Australia’s public pension is less expensive than almost any other in the developed world. It will grow at half the rate of superannuation tax concessions, which are among the highest in the developed world.

Yet the government has sought to tinker with means tests, payment rates and eligibility while leaving superannuation untouched and unmentioned. Addressing tax concessions would do much more for revenue, efficiency and equity than the small change to top marginal tax rates.

The one brighter note is a payment to businesses employing older Australians who have been out of work for over six months.

It is hard to see the pain being “shared equally”. Australia’s taxes are well below those in other rich countries, yet the government has focused on cutting taxes, not fixing the loopholes.

It will see many Australians working harder and longer, and older people falling behind community standards. This comes at a time when Australia is one of the richest countries with one of the smallest debts in the world.

Foreign policy and aid

Susan Harris Rimmer, Director of Studies, Asia Pacific College of Diplomacy at Australian National University

No-one cares about foreign policy spending in a budget like this, even if our fiscal futures are linked to the region’s fortunes and our ability to manoeuvre in a globalised economy. Nevertheless, there are some significant cuts and some serious oddities in the budget papers, and significantly, far less detail than usual.

I predict that Australia shall one day soon rue its under-investment it makes in international relations, including our agents of soft power.

As expected – but to be much mourned – spending on official development assistance (ODA) will be cut by $7.6 billion over five years by maintaining ODA at its nominal 2013-14 level of $5.0 billion in each of 2014-15 and 2015-16, with much of the loss coming from the multilateral bucket. This was the last nail in the coffin of John Howard’s pledge in the year 2000 to meet the Millennium Development Goals target of 0.7% of GNI by 2015.

Nevertheless, $5 billion can still do much to eradicate extreme poverty in our region, and hopefully the AusAID-Department of Foreign Affairs and Trade (DFAT) merger will not hinder effective aid policy and delivery. But two signs do not look good. First, the government has confirmed that from 2016-17 ODA will grow in line with CPI. This is a stunt, and meaningless at best. It is not an Australian domestic decision to make.

The OECD and the UN measure ODA spending against GNI, and adopting random other standards will not stop external judgement of our performance in this regard. The papers also refer to the introduction of a cap on departmental costs for DFAT to administer ODA equivalent to 5% of DFAT’s total ODA budget. This is ominous. Administering an efficient aid budget takes skill, and is not an arbitrary measure. Further papers provided in the lock-up note the loss of 500 jobs, most to come from former AusAID staff, and already experienced staff are leaving.

The budget also confirms what has been on the cards for some time now: that the government will axe the
Australia Network contract with the ABC in 2014, saving $76.8 million over four years. Foreign minister Julie Bishop says it:

…has failed to deliver a cost-effective vehicle for advancing Australia’s broad and enduring interests in the Indo-Pacific region.

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Science and research funding

Rod Lamberts, Deputy Director, Australian National Centre for Public Awareness of Science at Australian National University

At first glance, from the perspective of science, research and public awareness of science, this is a mixed bag. But to bastardise a phrase we will be hearing ad nauseam for the next few days, Satan no doubt lurks in the appendices.

PhD students will be required to “make a modest contribution towards the cost of their degree” because of a drop in government funding for the Research Training Scheme (RTS). Students will be offered access to HELP, which is cold comfort given there is no such obligation for PhD candidates to do this now. The budget documents suggest that “universities may choose to offer scholarships to cover these costs”. Sounds like a great incentive to have universities increase fees to cover this.

The Australian Research Council (ARC) seems to fair reasonably, though I am deeply suspicious of the proposed one-off efficiency dividend. The organisation is already stretched to capacity and relies enormously on the goodwill of the research community to evaluate grants (which is an indirect way that universities pay for the ARC). The dividend is likely to make the management and administration of the hundreds of millions of dollars of research funding overseen annually by the ARC even more difficult.

The Medical Research Futures Fund (MRFF), to kick-off on January 1, 2015, sounds likely to cut both ways. There are grand pronouncements about the critical research it will fund. However, I have two reservations for now. The first is that it will be funded using “every dollar of estimated savings from health reforms in this budget”. If this includes those from “reforms” like the $7 GP co-payment, then in the long run this smells like a national health version of robbing Peter to pay Paul.

Second, how and by whom will the priorities to be funded by the MRFF be decided?

I turn now to my own tiny-but-significant area: science communication and public awareness of science. National Science Week looks set to continue, and there will also be a “Strategic Science and Communication initiative” about which I currently know nothing. I suspect it will be a variation on the current Inspiring Australia initiative kicked off by Kim Carr in 2010. These two enterprises will be funded to the tune of $13.4 million, which looks to be pretty much business as usual.

Oh wait, there is of course the $111.4 million cuts to CSIRO over the next four years. Well, at least this wasn’t a total surprise.

Megan Clark, Chief Executive Officer at CSIRO

CSIRO will be taking a hit of around $114.8 million over the forward estimates. This is a reduction of around 3.8% of our appropriation so that will hurt. It will also impact our capacity to work with some of our industry and external partners.

Other countries are investing in research and innovation at a rate greater than their GDP growth, and Australia needs to be very careful if we drop below our GDP growth rate for our investment in innovation and research. It will take decades to recover.
Certainly, when you look at what’s in the budget, we risk not growing our research and innovation at that same rate. Our revenue, both appropriation and external revenue for 2014-15, will be $1.22 billion and that will rise to $1.26 billion in 2017-18.

We are forecast to have around $405 million external revenue this year. We’re seeing steady investment in areas of agriculture, energy, environment, information technology, space services; softening and decline in R&D in resources and manufacturing. If we look into the out years we’d be expecting just under $400 million in the next year rising to over $400 million in 2017-18.

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**Political implications**

**Carol Johnson, Professor of Politics at University of Adelaide**

The government argues that we are facing a budget emergency that must be fixed, and that we are all playing our part in making sacrifices that will help get the budget back in the black. Everyone must contribute. However, in reality, this is a budget that will impact far more detrimentally on lower income earners, and welfare recipients, than higher income earners.

Despite all the talk of the deficit being worse than expected, Hockey is really implementing the neoliberal ideological agenda of cutting back the role of government that he enunciated in his 2012 “end of the age of entitlement” [speech](#) and repeated a couple of weeks ago in his [address](#) to the Australia-Israel Chamber of Commerce.

The government’s problem is that this ideological agenda is not the one that they went to the 2013 election with. Then, Abbott focused on [reassuring voters](#) that his government wouldn't engage in the cut-backs to key services and jobs that Labor accused the Liberals of planning Abbott claimed that Labor was just running a scare campaign. Now Labor can claim that the Coalition got elected by fundamentally deceiving voters about their true intentions.

The government is also having trouble spinning a more positive narrative, beyond reducing debt. For example, building roads is important but roads are the infrastructure of the 20th century rather than the 21st. There is no hi-tech future imagined here, and new green industries are also facing cuts, though there is a welcome boost for medical research.

Above all, the government’s narrative doesn’t adequately deal with how they will address the falling revenue aspect of the government debt problem. The Coalition’s arguments rest on the old neoliberal assumption that cutting government will increase revenue (and facilitate future tax cuts). However, selling off assets can sometimes reduce revenue or even increase costs to government in the longer term.

A small temporary levy on the wealthy isn’t going to be enough to compensate for the massive amounts of revenue lost from the repeated tax cuts of the Keating, Howard and Rudd years, never mind the foregone revenue from a carbon price or an effective mining tax. It won’t fix the continuing impact of the global financial crisis on falling revenue or the fact that the Australian economy is no longer generating massive revenues from the investment phase of the mining boom.

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

The government does now face substantial short-term implications and challenges in selling the budget. Whether they prove to be long term or not depends on a couple of factors. The context is that this government went into the 2013 election promising to rebuild trust in Australian politics and making promises about no tax changes in their first term – referring to the record of the previous government and its broken promises.

And now the government appears to be overturning some of their own promises, albeit in the name of saving the nation’s economy from a worse fate.

Strategically, the government has done the sensible thing by bringing in the hard measures early in the term.
And they now have another couple of years to soften that message, and sweeten it. However, the question is whether the government will be able to do that successfully.

One of the indicators from which they might take lessons is what’s happened with the Newman government in Queensland, which came to power and did very similar things, such as having a Commission of Audit, sent negative messages about the state of the economy, and implementing stringent measures in the name of working down the state’s debt.

But a couple of years after that, the Queensland government is still talking about how difficult the state of the economic climate in Queensland is. So there isn’t, in a sense, by their own rhetoric much evidence that the tough messages they put in place bit into the bottom line.

So, in the next year or two, it will be important for the federal government to be able to present a message of how successful they have been and how the tough medicine has been effective, and how they will now be able to bring in some more desirable measures to make life more palatable for people. If they were able to do that, then what happens now and in the short term in the aftermath of this budget might not really bite them in any serious way electorally.

But if the government is not able to do that, the angst will build up. It’s not so much about specific measures in this budget, it’s really about whether this is the beginning of a series of events and measures and policies that keep talking about bad news and perhaps the unfortunate need to break promises.