Rare pre-poll conservatism

| Alan Moran
crikey.com.au 9th May, 2007

Bookmark

Defying the normal election year traditions, Mr Costello has delivered a budget anchored on non-inflationary fiscal conservatism. The Budget surplus remains at one per cent of GDP, and government spending's share of GDP is stable.

Much of the Budget's foreshadowed spending comes in future years. Transport and water spending don't reach their crescendos until 2010/11.

There is however a host of immediate spending measures. These range from the strategic expansion of education (including an interesting foray into vouchers for private provision of remedial services). Education funding also includes beating teachers over their heads with dollar bills to encourage their own greater skill acquisition.

Child care also is increased in funding, though part of this will purely compensate for the increased costs of unnecessary credentialism for child care workers which State Governments are steadily imposing.

The Budget also offers hand-outs to the pensioners whose votes become increasingly crucial as the century progresses. One-off bonuses, increased carer subsidies and even increases in free dental facilities are likely to appeal to this group.

There is also the gimmicky wasteful expenditures, none more so than the $8,000 subsidy for solar panels, perhaps the most expensive possible form of electricity.

On the revenue side, Australia's tax system remains heavily geared to punishing high income earners. The $5 billion reductions shift the thresholds at which the steeply progressive tax rates cut in and leave overall income tax collections up by 5.3 per cent. Mr Costello was not about to leave himself vulnerable to a politics of envy attack by bringing down the top rate in an election budget. Nonetheless our tax levels put us at risk in maintaining and attracting the "clever" people everyone sees as driving continued economic growth

The ALP has drawn attention to a need for more investment to ensure productivity growth. Its own ideas on boosting investment by raiding the Future Fund to finance high speed broadband are hopelessly underfunded given the pressures governments will be under to ensure the network reaches every nook and cranny. For its part, the Government cannot bring itself to relax the regulatory restraints preventing telecom, gas and rail companies from investing their own money in infrastructure to prevent future technology lags and capacity shortages.

One serious vulnerability stems from the current account of the balance of payments going into deficit by a whopping 6 per cent of GDP. The counterpart of this is net capital from overseas which next year is equivalent to a 30 per cent share of private business investment. Such a level is astonishing for a mature economy and indicative of us living beyond our means.

Back to news page

Bookmark

Become a member of IPA today

Enter keywords here...

Archived news
