

# Why Abbott's Budget is Economic Twaddle

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Tony Abbott's shortcomings in the numbers department were on display in his budget reply. Ian McAuley does the maths on the Opposition Leader's "alternative vision".

Tony Abbott's budget reply was visionary — a vision of Australia 10 or 20 years from now, left behind by the rest of the world, as we progress from prosperity, through economic complacency and finally into the torpor of stagnation — Asia's "South America". Like present-day Nauruans remembering their phosphate boom, older Australians will nostalgically recall the days of plenty when we squandered the returns of a short-lived mining boom, and how we foolishly believed we could use our taxes to support a welfare state rather than to invest for our future prosperity.

The essence of Abbott's economics is to sustain and expand the Howard government's middle-class welfare — which the Gillard government has done no more than trim a little — and to achieve a budget surplus without raising taxes.

Mathematically, that means there would have to be deep cuts in all other areas of government spending — health, education, transport, security and all those other public goods which provide material benefits and strengthen our economy. If we are to compete in a tough world we need to invest in education, public health, infrastructure, environmental repair and industry adjustment — but these public investments would be sacrificed to sustain the Howard-Abbott welfare system.

He was at the height of hypocrisy when he said he was reaching out to "police, nurses, fire fighters, teachers", all of whom are dependent on direct or indirect public funding. They would be the first to be out of work when an Abbott government cut public spending.

He presented no policies to transform the economy away from its dependence on resource extraction, no plan to share more widely the returns from mining, and no more than a token investment in broadband which would leave Australia in the technological slow lane. While other countries live off their wits and application of technology, we would live for a few more years off our depleting natural assets, using middle-class welfare to hide our economic decline. Few countries take such a foolish path; it's not dissimilar to the path taken by Argentina under the populist Peron Government, which saw a country that once matched Australia's prosperity slide into poverty.

In his criticism of the Government's mild retraction of middle-class welfare Abbott would have us believe that a household income of \$150,000 is commonplace. It is correct that many people, in around the 45-55 age group enjoy high incomes for a few years, but the inconvenient reality is that only 17 per cent of households have incomes of \$150,000 or more, and the median household income is about \$74,000. We are yet to hear what Abbott's National Party colleagues, elected by many farmers, think about \$150,000 as an income benchmark.

Another inconvenient reality is revealed in research (pdf) by Sydney's Wesley Mission. They have indeed found that 15 per cent of households with incomes of \$150,000 or more report financial stress, but the same research shows that 51 per cent of households with incomes less than \$30,000 report that they suffer no financial stress at all.

Is Abbott really saying that our taxes should be spent on supporting the well-off-but-disorganised, who have become over-committed through their own decisions? Apart from the occasional Buddhist monk or Carmelite nun, it's normal human behaviour for our material desires to be a little beyond our means, but it's ridiculous to suggest such people are doing it hard. Research (pdf) by the Australia Institute in 2005 found that 7 per cent of people in households with more than \$3 million in assets said they were "poor" or "just getting along". As the Australia Institute points out (pdf), politicians and talkback journalists find it easy to beat up the rhetoric of struggle with phrases like "Aussie battler".

These findings make a mockery of his statement about "financial pressures on nearly every Australian household". Yes, "nearly every". He presents no evidence to back up this claim, either because he has difficulties with numbers, or because his minders know that the data points in the other direction.

In simple terms, since 2000 prices have indeed been rising at 2.9 percent a year. But incomes have been rising faster: even by the most conservative estimate (full time adult earnings), incomes have been rising at 4.7 per cent a year. That's a long-term trend. It doesn't matter much what base one takes. If, for partisan purposes,

one were to measure the growth in incomes since Labor was elected, we find even stronger evidence of incomes outstripping inflation.

That isn't to say everyone is finding it easy. There are always people doing it tough. Abbott correctly points out that the prices of some necessities have been growing faster than the CPI, which has been kept down by more discretionary items such as electronic equipment. He mentions specifically education, health, electricity, gas, water, and groceries.

He doesn't mention some other necessities, such as clothing, telecommunications, furniture and cars, the real (inflation-adjusted) prices of which have which have been falling for many years, nor does he point out that food prices will probably show a rapid fall in the coming months as we recover from the disasters of the summer.

His worst omission, however, is to fail to explain why prices are rising. Thus he has avoided the question of how public policy might keep prices in check.

In health and education, much of the rise in prices for these services can be traced to the withdrawal of government funding over many decades. Publicly funded healthcare and education have been important aspects of the "social wage" over the years; although these services are designed for purposes other than redistribution, they have redistributive consequences. In his speech he even criticises means testing of private health insurance — an extraordinary statement for a former health minister, who, of all people, should know how private insurance causes price inflation and draws resources out of public hospitals.

Many people would be more financially secure if governments restored their funding to health and education and used the power of governments to keep any residual consumer payments in check, but that's not what Abbott has in mind — just the opposite in fact.

For utilities — electricity, gas and water — price rises are more inevitable, and because they are derived directly from scarce natural resources, most economists suggest that governments should let their prices rise. Any government intervention to stave off price rises does no more than to delay the inevitable — and to make the ultimate pain far worse. Some utility price rises result from privatisation, because regulators allow the monopoly components of utilities to enjoy a much higher return on capital than governments seek from publicly owned corporations, and consumers have to bear the costs of multiple companies competing to provide the same services. There is a case for re-nationalising utilities, but any resulting price saving would provide comfort for only a few years. In any case, given Abbott's opposition to public ownership of broadband — or of any productive assets for that matter — public ownership is not part of his plan.

One reason electricity prices have risen so much in recent times is the reluctance by utility companies to expand their capacity until they know how carbon will be priced. Had Abbott not wrecked the bipartisan agreement to price carbon, we would now be two years further advanced in providing certainty to the industry. As it is, he is leaving industry confused: if elected, he says, he will repeal any carbon tax, and will implement some vaguely defined and uncosted direct interventions to deal with climate change, which are bound to be costly, either through prices or taxes, and which will require the heavy hand of regulation to achieve any meaningful outcome.

A carbon price, if implemented now, and if accompanied by means to help people reduce their carbon footprint, will undoubtedly cause some transitional difficulties, but we have coped with bigger change in our time, such as the GST. It's easy to stir up fear of change, but deferring inevitable change is cruel.

Abbott's economic twaddle goes on.

He claims that "since the middle of 2009, interest rate rises have added \$500 a month to mortgage repayments". Housing interest rates have indeed risen about 2 per cent since mid 2009, but mid 2009 was the middle of the global financial crisis. It's a credit to the Government that it handled the GFC so well that we didn't have to push official interest rates down to US levels (near zero), which would have caused severe problems as interest rates recover to normal levels. And, in any event, housing interest rates are now lower than they were when the Howard government left office. His claim that interest rates will fall if he brings in a large budget cash surplus, as the Howard government did, shows how little he understands the workings of financial markets.

He refers to that cash surplus of the Howard government as "70 billion in net assets", displaying a difficulty in understanding just what an asset is. One would expect a government in office during a cyclical boom to accumulate a budget surplus, as the Howard government did, but it did so by leaving us with a severe deficit

in our infrastructure and in our institutional, environmental and social capital. The Howard government depleted our assets.

To put the basic arithmetic as simply as possible, we cannot go on letting middle-class welfare squeeze our public expenditure, at the cost of our government services and public investment. If we are to prosper we need a mix of public and private services and of public and private investment. A "left" leaning government would be inclined to sustain welfare outlays, using taxes to pay for public services. A "right" leaning government would be inclined to finance public services out of cuts to welfare.

For a Liberal Party leader, Abbott is a strange creature: he is prepared to defend the welfare state, is hostile to market mechanisms to reduce greenhouse pollution, and seems to have great difficulty in understanding the fundamentals of economics. Can the Liberal Party not give us someone who understands economics and who embraces the party's principles and values?