

# \$2.8 billion cut from university funding WA SHORTCHANGED

# \$300 billion SQUANDERED

How Canberra has turned a national treasure chest into a massive deficit

Jessica Irvine  
NATIONAL ECONOMICS EDITOR



AUSTRALIANS could be sitting on a \$300 billion sovereign wealth fund to rival the oil-rich nation of Kuwait if we had banked the budget windfall of the now deflating mining boom.

Instead, exclusive modelling for *The Sunday Times* reveals successive federal governments have squandered the lot – and then some – in tax cuts, handouts and stimulus spending.

Most economists are tipping Labor's fifth Budget will reveal a budget still deep in deficit – by as much as \$10 billion in 2013-14 – as revenues continue to disappoint. This is despite the mining boom delivering a \$290 billion boost to the budget bottom line between 2003-4 and 2016-17, according to modelling by Canberra-based forecasting group Macroeconomics. The figure represents the

difference between actual revenues and the revenues that would have been raised if there had been no commodity price boom.

"That's money that could have been banked," said Stephen Anthony, a former Treasury official now head of budget forecasting at Macroeconomics.

Both sides of politics are to blame for the dire state of the budget today, Mr Anthony said.

"First you have the Howard government which was fiscally a very good government until its final five years when it became the blue-ribbon profligate government," he said.

"It really set a new record for fiscal irresponsibility."

In its last five years, the Howard government spent \$250 billion, including \$133 billion in new spending and \$117 billion in tax cuts.

The Rudd-Gillard governments have drained the budget of a further \$81 billion, including \$153 billion in new spending (\$70 billion during

the GFC) offset by tax increases of \$72 billion.

Veteran budget forecaster and director of Deloitte Access Economics, Chris Richardson, said the global financial crisis had blown a hole in government revenues, but Australia's budget crisis had been a decade in the making.

"During the good times we spent up big and then during the bad times we spent up big," Mr Richardson said.

"The budget is worse than people think it is and sadly for Australia it's worse than the politicians think it is."

The chief economist at HSBC, Paul Bloxham, said "best practice globally" would have been to set up a sovereign wealth fund to stash the temporary revenue boost, as Chile did in 2007 with its copper revenue and Australia advised East Timor to do with its oil and gas.

"We could have had better management of this very large gift of rising commodity prices we received from the rest of the world," Mr Bloxham said,

adding this year's Budget was likely to look "nasty".

The managing director of Market Economics and former economic adviser to Prime Minister Julia Gillard, Stephen Koukoulas, expects the Budget will reveal several years of deficits.

"There's just not the revenue coming through," he said. "We gave too much away, both sides. To build surpluses from here, things have got to be cut or taxes have got to be increased."

Mr Koukoulas is tipping a deficit of \$10 billion in 2013-14 and about \$5 billion the following year.

Norway has the world's biggest sovereign wealth fund, with \$716 billion raised since 1990 from the country's rich oil reserves. The Kuwait Investment Fund, established in 1953, is the world's seventh-biggest at \$342 billion.

Australia's Future Fund ranks 13th at \$83 billion. Combined with the \$290 billion from the mining boom, we could have bumped Kuwait for seventh place.

SAMANTHA MAIDEN  
National Political Editor

JULIA Gillard will today gamble her election hopes on a plan to slash funding to universities but deliver a \$4000 boost to every school student in Australia.

Vowing to "get it done", the Prime Minister will pledge that if the new spending is averaged across Australia, it will equate to \$1.5 million extra over six years for every school in the country.

But while NSW and Victoria will share an extra \$9 billion, WA would secure just \$300 million.

Despite claims WA was paying the price for being cashed up and investing in schools, Education Minister Peter Garrett said the allocation was fair.

The amount invested in each state under the Schooling Resource Standard is based on school and student characteristics and current levels of public investment, a spokesman said.

Universities and higher-education students will pay the price, with the Budget razor gang confirming savage cuts of \$2.8 billion to universities, discounts for families paying up-front HECS fees, self-education tax-deduction changes and converting a student scholarship scheme into a loans scheme.

The Coalition signalled it might support the tough measures, warning it could not save the sector from a "bad government".

An exclusive Galaxy poll published today in *The Sunday Times* reveals there is appetite for Budget savings, with 57 per cent of voters backing cuts to middle-class welfare in the May Budget to increase funding to schools and the National Disability Insurance Scheme.

Those with higher incomes are more likely to back cuts to middle-class welfare.

*The Sunday Times* can reveal the Gillard Government will propose a \$14.5 billion boost to public and private schools over the next six years, which would mean a substantial increase in the commonwealth's share of school funding.

That figure, over six years, is lower than the \$6.5 billion a year proposed by businessman David Gonski to transform the

school system. But the states would be required to provide up to half the \$14.5 billion.

The investment would be linked to new transparency demands, forcing schools to improve performance in reading and numeracy.

As Premiers prepare to hold talks with the Prime Minister to thrash out a new funding deal for schools, Ms Gillard warned the states that without change, schools would face a financial crisis.

"Today Labor will announce the biggest change to school education in 40 years," she told *The Sunday Times*.

"I want every Australian child to have the start in life that comes with a world-class education.

"We know we need to make improvements if we are to take Australia into the world's top five education systems by 2025 and I am determined to get it done."

The new investment would lift spending on schools to \$49.5 billion on average over the next six years to 2019.

NSW would have the lion's share – 29 per cent – of the new cash with a \$5 billion increase. Victoria would secure \$4 billion, or 23 per cent, and Queensland would get \$3.8 billion.

South Australia would receive \$600 million and Tasmania \$400 million.

But WA would secure just \$300 million.

Catholic schools would be given \$1.4 billion extra, lifting the total investment to \$50 billion. Other independent schools would secure \$1 billion extra over the six-year time frame.

But the price of the reforms is huge cuts to universities and scholarships the Coalition indicated it would not oppose.

"Sadly, this is the price you pay for a government that can't live within its means," shadow treasurer Joe Hockey told *The Sunday Times*.

Education spokesman Chris Pyne said: "We will closely examine the cuts but we are not in a position to save the sector from a bad government."

Greens leader Christine Milne accused the Government of taking Australia's education system closer to a US-style user-pays system.



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