$83bn ‘savings’ partly due to higher taxes

John Kehoe

About half of the $83 billion the Gillard government has claimed in budget savings comes from revenue measures including higher taxes on mining, luxury cars, alcopops and employees’ shares.

As debate raged between the government and opposition yesterday about whether the government should have made deeper spending cuts in the mid-year budget update, new analysis called into question Labor’s savings credentials.

State leaders also warned that Tuesday’s federal mid-year budget update, which revealed GST revenue would be $4.8 billion below earlier budget estimates over the next four years, would damage their own budget planning.

Treasurer Wayne Swan has repeatedly cited the $83 billion savings figure to emphasise the government’s budget discipline.

Research by the Parliamentary Library shows more than $41 billion of Labor’s claimed savings in the past three budgets came from revenue, not expenditure cuts.

In this year’s budget, more than 60 per cent of the $30.1 billion in savings Labor accounted for flowed from revenue measures.

The resources rent tax was expected to “save” the government $12 billion, although it has since been revised down to $7.4 billion.

Similarly, Labor claimed it would save $4.98 billion from increasing the excise on tobacco.

Finance Minister Penny Wong defended the government yesterday. “In its first three budgets, the government announced more than $83 billion of policy decisions that provide savings to the budget and improve the budget bottom line,” Senator Wong said.

Saving or taxing?

Revenue measures the government has claimed in its $83bn in savings ($m)

Measure	$m
Resource rent tax	7400
Increase in tobacco excise	4980
Alcopops tax	3145
Increase in crude oil excise on condensate	2544
Reducing superannuation concessional contribution caps	2750
Luxury car tax	555
Increasing visa application charges	402
Fuel ethanol tax amendments	275
Employee share scheme crack down	200

SOURCE: FEDERAL BUDGETS

“This includes policies that are classified as expense, revenue and capital items in the budget papers.

“The Coalition used the same way of presenting these types of policies in their election costings document by including taxes and charges.”

Both sides of politics claimed savings from revenue items in the election, including the auction of communications spectrum and indexation of passport fees.

Assistant shadow treasurer Mathias Cormann, who commissioned the Parliamentary Library research, said the government’s claims that it had saved more than $80 billion were dishonest.

“It turns out that when Wayne Swan and Penny Wong talk about savings, more often than not they’re talking about yet another Labor Party tax grab,” Senator Cormann said. “What we need are genuine spending cuts to take pressure of inflation and interest rates, not this sort of dishonest Labor Party spin.”

Stephen Anthony, director of Macroeconomics and a former Treasury and Finance department official, said gross savings figures cited by the government were not a meaningful indicator, because it was spending cuts and net savings that mattered.

Stripping out the temporary global financial crisis stimulus spending of about $70 billion, there was a $43 billion increase in permanent discretionary spending, Macroeconomics research shows.

Meanwhile, Queensland Treasurer Andrew Fraser said the state’s $1 billion GST “haircut” underscored the vital need for fiscal reform and for the state to pay down debt.

West Australian Premier Colin Barnett flagged modest corrective measures to deal with the softer GST revenues, but said his state’s finances were robust enough to weather the cut.

“GST revenue has been a declining story for WA, and we are adjusting our finances on the basis that we will get less share and even less in dollar terms in GST,” he said.

with Mark Ludlow and Peter Kerr

Swan’s ‘lost opportunity’

Michael Dwyer

What Treasurer Wayne Swan describes as the fastest fiscal consolidation in the nation’s history may end up feeling more like a hospital pass for Reserve Bank of Australia governor Glenn Stevens.

Mr Swan spent much of yesterday trumpeting the government’s resolve to return the budget to surplus by 2012-13, even if the mid-year budget forecast update shows the result will be slightly less than Treasury’s pre-election estimates.

But many economists argue that this week’s Mid Year Economic and Fiscal Outlook was a lost opportunity for the government to do more.

And they insist the government’s failure to initiate any substantial spending cuts at a time when the economy is fast approaching full capacity will ultimately place more pressure on the RBA to manage growth.

“In some ways, one can think of the balance between fiscal and monetary policy as a menu of choices,” said HSBC’s chief Australian economist Paul Bloxham, who previously worked at the RBA for 12 years. “In choosing not to tighten fiscal policy more quickly than previously planned, it is likely monetary policy will need to be tighter than otherwise might have been the case.”

Wayne Swan . . ‘could do more’.

Treasury says the fiscal consolidation of 4.5 per cent of gross domestic product projected for the three years to 2012-13 is the fastest in at least 40 years, claiming that around half of the consolidation comes from increasing receipts, while the other half is delivered through spending restraint.

But Deutsche Bank chief economist Adam Boyton said the impact of decisions taken between the May 2009 and May 2010 budgets in aggregate actually subtracted a little from the budget bottom line. And he calculated that from the May 2010 budget to this week’s policy, decisions have also “eased” fiscal policy by $5.8 billion over a four-year period to 2013-14.

“In other words, this extraordinary fiscal consolidation has not been built on discrete policy decisions, but on the back of a much stronger than factored economic performance and outlook that evolved between the May 2009 and May 2010 budgets,” Mr Boyton said.

“That leaves us with the real story behind the MYEFO and indeed Australian fiscal policy over the past decade — the extraordinary and pervasive impact that an unprecedented terms of trade shock has had on the federal budget,” he said.

“This time it delivers the largest fiscal consolidation in 40 years without the need for discretionary fiscal tightening.”

That could be troubling for the Reserve Bank, which showed earlier this month that it is more than willing to take pre-emptive action to ensure above average economic growth doesn’t fan inflation.

Central bank officials have also repeatedly stressed the need for fiscal consolidation to remove some of the demand pressures building up in the mining-fuelled economy.

In a speech delivered just two days after the May 2010 budget, RBA assistant governor Philip Lowe highlighted the importance of lifting savings by both governments and households in order to ease these demand pressures.

But faster or broader fiscal consolidation by the government would reduce the burden on the Reserve Bank to act.