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Not tough but definitely responsible

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Julia Gillard and Wayne Swan have done something audacious and unexpected. The weakest federal government since the 1940s has produced one of the more spartan and responsible budgets of recent times.

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It is the first minority government in 70 years, yet it has done less political pandering in this budget than much stronger governments have done.

There are two telltale signs. For the first time in nine years, this budget gives out no income tax cuts. That last happened in a bygone era when wireless internet was just a dream and when sports enthusiasts were looking forward to the Athens Olympics of 2004.

And this budget marks the disappearance of one of Labor's favourite political props, the "working family", deployed with nauseating regularity by Kevin Rudd and Julia Gillard from 2007 in a coded pitch for the "Howard battlers".

It would be going too far to suggest that this government has given up on wanting to be popular. All politicians, even the toughest, secretly crave the adulation of the crowd.

But, in this budget at least, Gillard and Swan largely have given up on trying to court popularity in any blatant way. This is rational. Every time Gillard has tried to court popularity, it has failed.

Or, as Swan quipped to the *Herald* last night, the pursuit of the people's love has "taken us to all the wrong places".

Gillard failed to hold Labor's majority at last year's election. And Labor's primary vote has fallen inexorably ever since, according to the polls. So if you can't be popular, you may as well be responsible.

Budgets are put together by politicians. They are inherently political. But they are also tools of economic management. This one contains less politics and more economics than most. Hallelujah.

Last night, goaded by a reporter asking how he could curb spending on disability pensions where Peter Costello had not, Swan retorted that he had done a lot of things that Costello had not.

This is true. Swan has a perfect record of delivering budget deficits. This will be the fourth. But Swan had set out a plausible path to return the budget to surplus next year.

This is really a bare minimum of economic management for Australia at this juncture. "Even with the terms of trade close to a 140-year peak, the Gillard government is struggling to return the budget to surplus on a sustainable basis," observed Stephen Anthony of consultancy Macroeconomics.com.au, a former budget analyst for the Treasury.

But the budget manages, just, to get us there. Swan's task was complicated by the fact that tax revenues slumped by an unexpected \$16 billion over the next two years, a hangover of tax losses from the economic downturn.

But promising a deficit in this budget of \$22.6 billion and a surplus of \$3.5 billion in the next, Swan proposes a return to surplus just in time for the expected date of the next election.

This eases pressure on the demand side of the economy. This is important because, if the government won't, the Reserve Bank will, and it'll do it through painful interest rate rises.

This is one of two vital economic tasks that this budget needed to accomplish. The other? With Australia entering a new boom, it needed to add to the supply side of the economy.

Australia is "in the early stages of the biggest investment boom on record" - the words of the budget papers. The economy is approaching full employment and full capacity, a recipe for inflationary bottlenecks.

The budget addresses this by expanding the economy's potential output through new training programs, skilled immigrant intake increase, and welfare-to-work measures.

Or as Swan put it: "The core of this budget is the conviction that we don't have a single person to waste." So of the two central economic tasks, this budget does a plausible job of addressing both.

Swan and Gillard promised a "tough budget". It's not that. There are no big, hard, politically painful savings measures, only some cautious tinkering.

And there are some politically indulgent giveaways. The \$5000 instant write-off of new capital outlays for small businesses, for instance, is expected to be commonly used by tradespeople and small businesses buying a vehicle. It's a blatant pitch to the voter that Swan described as "the ute owner".

And the government has catered to the demands of the independents who keep it in power.

The government gave regional Australia a six-year, \$4.3 billion package to deliver on promises made last year to key independent MPs Tony Windsor and Rob Oakeshott.

Most of this had already been announced, but there was a new \$100 million in money for regional employment "hubs".

But by and large this is a responsible budget. It probably won't get Labor out of "all the wrong places" in the polls. But it's likely to get Australia a little closer to some of the right ones.



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