

# Rudd has lost his boldness and roar

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**A deficit is a good thing in bad times, but only if you cut spending once recovery starts.**

The Rudd Government has responded to the recession like a lion, but the budget reveals that it is retreating from it like a lamb. The Government loves to tell us that it was "early and decisive" in splurging taxpayers' money to ward off recession. True.

And now we see that it plans to be slow and timid in bringing the budget back under control again.

In fact, the Rudd Government is so timid that Australia will still be carrying a debt overhang in 10 years' time, according to the budget papers.

The good news is that the economy is set to recover from recession. Government spending has so cushioned the impact of the global downturn that Australia's expected economic shrinkage of about 1.75 per cent will turn out to be only about 0.5 per cent in the year starting July 1, according to the Treasury.

The bad news is that the Government has not worked out how to pay for this without recourse to what is, for all practical purposes, indefinite indebtedness.

Last night's budget projects that in a decade from now, the Federal Government will still have net debt of 3.7 per cent of gross domestic product as a result of the money it is spending today.

In today's terms, that is about \$40 billion, the size of the entire economy of Lebanon. This is extraordinary. It marks this as a frightened government.

In essence, the Government has decided it will not alter its pre-recession plans and priorities.

It is proceeding with new spending measures decided during an economic boom. It is simply adding on top of that the cost of responding to economic bust. And it is putting it on the national credit card.

Is the Government finding savings to offset these huge extra costs? Yes, but they are so small that they, overall, do not alter the national trajectory into debt.

The political logic is that Rudd is a politician who keeps his promises.

The economic consequence is that the taxpayer will have to honour his debts.

"The fiscal ship is taking water, and the pirates aren't friendly," in the words of a former federal government budget analyst Stephen Anthony of [Macroeconomics.com.au](http://Macroeconomics.com.au).

Rudd and Wayne Swan are insisting on going ahead with the plans they brought into government 1½ years ago.

In this budget they are handing out permanent tax cuts that will cost the Treasury \$5.3 billion over the first three years.

Strikingly, there was barely a reference to these tax cuts in the budget papers last night. The Government is evidently embarrassed by them - surely the biggest tax cuts a government has not blared from the rooftops.

And Rudd and Swan are going ahead with a \$32 a week increase in the pension at a cost of \$14.1 billion over the first four years.

Plus they are proceeding with \$22 billion in infrastructure spending, road and rail, broadband and renewable energy.

Yesterday Swan relabelled the infrastructure investment as "building our way to recovery".

But it is, nonetheless, money the Government had decided to spend before there was any downturn to recover from.

On top of this, it has added in the emergency stimulus measures announced in December and February.

And they've put it all on the national credit card. The result is a deficit of 4.9 per cent of GDP, bigger than any deficit since the modern accounts series started in 1970.

For comparison, the Whitlam government's worst blow-out was its legacy to Malcolm Fraser of a deficit of 1.8 per cent of GDP.

And the deficits during the past two recessions? In the 1982-83 recession, the deficit peaked at 3.3 per cent of GDP.

In the last recession, that of 1992-93, it hit 4.1 per cent.

Sure, the Rudd Government has made a few trims to spending.

It has scaled back some of the tax concessions on superannuation.

It has more tightly targeted spending on pensions and family payments.

And it has cut back the rebate on private health insurance for people earning \$75,000 a year or couples earning \$150,000.

But these are tweakings at the margin of the federal outlays. The overall effect is that new spending exceeds savings measures for the next three years.

This will impose deficits of \$57.6 billion in the first year, the 12 months starting on July 1.

Then the deficit will be \$57.1 billion the next and \$44.5 billion the year after.

Rudd and Swan boast that by the fourth year, their savings measures will be bigger than their spending measures.

True, but by the time that happens, they will still be running a deficit of \$28 billion. And the accumulated net federal debt will be in place at \$188 billion. The cost of paying interest on so big a debt? An annual amount of \$7.6 billion.

Kevin Rudd and Wayne Swan inherited a government with no net debt and big surpluses.

But now they tell us that even if they manage to win another three terms in power, even if there are no more recessions or emergencies, they will still be paying off a debt bigger than the entire federal education budget.

Just to repay the spending they are entering into now.

And guess what?

By that date in 2019, the pressures of Australia's ageing population will be bearing down on the budget.

From about 2015-16, the ageing of the population is projected to increase the government's social welfare outlays by another 3 per cent to 5 per cent of GDP each year.

Make no mistake. It is good policy to increase spending in a recession. A deficit is a good thing in bad times. It softens the blow, providing a countervailing force against the downturn.

But it's only good policy if you cut spending accordingly once a recovery is under way.

The Rudd Government has been commendably bold in boosting spending in the downturn.

But it is now exposed to be woefully timid in its plans for cutting spending in an upswing.

The Rudd Government gave a mighty roar as it rushed to spend our money against the onrushing recession.

Now that recovery is in prospect, a much sterner kind of courage is required - the courage to scale back spending.

But Rudd and his ministers, so anxious to please, have lost their boldness and their roar. The Labor Party's national secretary, Karl Bitar, likes to remind Labor MPs that the Rudd Government holds 22 seats in Parliament by a margin of 5 per cent or less.

Rudd's budget exposes him as a leader governing with this fact uppermost on his mind. He is quick to please, but loath to offend - even if the national interest demands it.

The Government will tell us, ad ad nauseum, that Australia's fiscal position is vastly better than that of the other developed countries.

And it's true. "Australia's deficit in 2009-10 is ... considerably smaller than the 8.8 per cent of GDP collective deficit for advanced economies as a whole."

But this is chiefly the result of the legacy that Rudd inherited from the Howard-Costello government.

It's not the result of his own labour. He has shown with this budget that he is more interested in strengthening Labor's position than Australia's.