

**Welcome to the eleventh edition of The Australia Institute's e-bulletin *Between the Lines*, a selective analysis of the policies and politics affecting the wellbeing of Australians. This edition contains The Australia Institute's budget reply and looks at:**

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### **The 2009 Budget in clichés**

Budgets are all about clichés—'missed opportunities', 'robbing Peter to pay Paul', 'smoke and mirrors'. We have all heard budget clichés dozens of times. What then is the cliché that best captures last night's Budget? How about 'all sizzle, no sausage', or that wonderful phrase from Texas used to describe city farmers, 'all hat, no cattle'?

In this post-modern world, where the headline message is more important than the thousands of pages of budget detail, it is impossible not to begin an analysis of the Budget in terms of the messages the government has sent. The Treasurer Wayne Swan, having spent weeks preparing us for a 'horror Budget', this morning struggled to convince us that there was more pain lurking in the detail than actually met the eye. In an unusual transformation of a budget cliché, the Treasurer was effectively assuring us that the 'devil is in the detail'.

The fact is, while the deficit was as big as was expected, the opportunity to tackle middle-class welfare and remove the tax concessions most favoured by high-income earners was mostly missed. The tightening of superannuation contributions was a step in the right direction but, as The Australia Institute pointed out recently, the superannuation system as a whole has become an enormous rort for the very well-off. See *The great superannuation tax concession rort* at [www.tai.org.au](http://www.tai.org.au).

The increase in the age pension and the eventual introduction of paid parental leave are supported by the research done by The Australia Institute. However, the Institute has also recently highlighted the need to abolish the capital gains tax exemptions, introduce a new 50 per cent tax rate on incomes over \$1 million per annum and stimulate the economy by increasing the current miserly unemployment benefit payment. See [www.tai.org.au](http://www.tai.org.au) for research papers entitled *Tax equity: Reforming capital gains in Australia*; *The case for a new top tax rate*; *The great superannuation tax concession rort*.

Perhaps the government will address these missed opportunities following the Henry Tax Review?

Leaving aside the spin, the Budget itself is well suited to the current macroeconomic circumstances. This year, the Treasurer has budgeted for government spending of \$337 billion and revenue of \$282 billion, the difference being a budget deficit of \$55

billion. (The government ignores the earnings of the Future Fund and describes the deficit as \$58 billion). There is no doubt that that is a large deficit but there is also no doubt that without such a deficit the economy would be in worse shape.

While the government should not be criticised for the size of the deficit, it is fair to say that its aim is off. To end on another cliché, this is a genuine 'horror Budget' for those who historically 'fall through the cracks', such as the unemployed.

### **The ghost of Keating past**

The budget papers claim that without the government's recent stimulus packages there would likely be an additional 200,000 people unemployed. Even so, unemployment is expected to reach 8.5 per cent by June 2011 and it must be remembered that that figure excludes a rising number of hidden unemployed. More needs to be done about this.

The unemployment problem is the most urgent social and economic issue in the nation at this time, yet the Budget contains virtually nothing for the unemployed. In 2009–10, total spending on vocational and industry training increases from \$1,343 million to \$1,430 million and spending on labour-market assistance increases from \$2,129 million to \$2,329 million. These are little more than the increases in the forward estimates that would have happened anyway.

The current poor performance on labour-market initiatives contrasts with the previous recession when Prime Minister Paul Keating made major contributions with the One Nation Statement in 1992 and the Working Nation Statement in 1994. Both sounded a familiar ring with an emphasis on infrastructure initiatives but they also contained strong labour-market components. The Working Nation Statement included labour-market programs designed to cater for 650,000 places per annum.

All in all, the 1994 Working Nation package involved massive spending and almost 75 per cent of it went to employment and training programs. By contrast, the discussion of the nation building and jobs plan in the 2009–10 Budget contains no mention of labour-market programs.

The OECD has warned that labour-market programs are essential to prevent the large increases in unemployment becoming structural. The organisation contends that unless action is taken, the newly unemployed will suffer long-term unemployment and be permanently excluded from the work force.

The labour-market initiatives in this Budget are feeble from an historical perspective in Australia but they are also feeble compared with measures taken in the rest of the world. The unemployment benefit will now be nearly \$100 a week less than the pension when the Budget's \$32.49 increase for the aged is factored in.

The purported aim of this year's Budget was to support jobs—but there is next to nothing for those who find themselves jobless.

### **How Green is my Budget?**

In the 1990s, Paul Keating quipped that you couldn't go into a pet store without hearing a parrot talk about microeconomic reform. These days, sustainability has achieved a similar status; the fact that everyone is now for it is virtual proof that it has become meaningless.

Consider last night's Budget for example. We know that climate change is one of the government's priorities because the Climate Change Minister said so. Unfortunately for ministers who want to talk up their achievements when it comes to budgets, the numbers speak louder than words and indicate with crystal clarity where the real priorities lie. And last night's Budget makes it pretty clear where the power sits around the Cabinet table.

Let's start with the good news—the \$3.5 billion clean energy infrastructure fund. Compare this to the \$8.4 billion investment in road, rail and ports, much of which will be spent to expedite the passage of our rapidly expanding coal exports on to boats. If you weren't expecting exports to increase, why would you invest in fixing the bottlenecks?

While the \$3.5 billion might look modest compared to the amount the government is spending on expanding the transport system, admittedly it's no small beer. However, when we look at where most of the \$3.5 billion is going, the priorities of the Rudd Government begin to overtake the claims by the Minister for (preventing) Climate Change: \$2 billion for research into clean [sic] coal and \$1.5 billion (over four years) for a new solar flagship program (see below).

And let's not forget what wasn't in last night's Budget. No change to the \$1.8 billion a year tax concession given to those who drive company cars and no change to the \$710 million exemption the airline industry enjoys because it doesn't have to pay fuel excise.

Budgets are all about priorities and this government's priorities are there for all to see. But only if you ignore the big claims and focus your eye on the big numbers.

### **The good, the bad and the ugly**

The good: Paid parental leave

The bad: More money for the fossil fuel industry than for the renewable industry

The ugly: Those who missed out—sole parents, the unemployed

### ***What is the new solar flagship program?***

***The new solar flagship program is a scheme designed to establish up to four solar energy projects generating electricity for the national grid. Their capacity will be up to 1000 megawatts. The budget papers admit that is just the equivalent of one coal-fired power station. This should not be sold as anything other than a modest initiative.***