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MYEFO 2019-20

MYEFO shows a weak economy and a Government focused on the wrong thing. The surplus is far smaller than reported

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Downgrading the economy

The MYEFO downgrades should be concerning for any sensible Government. GDP was downgraded by 0.5%, household spending was downgraded 1%, business investment was downgraded 3.5%, wages downgraded 0.25% and the demand of the whole private sector was downgraded 1.5%. On top of this MYEFO increased the expected unemployment rate.

The independent voices have been united in calling on the Government to reconsider its surplus strategy and do more to stimulate the economy. The RBA has been calling on the government to spend more on infrastructure. Just last week the IMF called on the Australian Government to forget the surplus and embrace stimulus measures including direct cash handouts.

This has been on the back of the recent national accounts that showed the Government's signature stimulus measure, the income tax cuts, completely failed to stimulate the economy, with savings for the 3 months after the tax cut rising by more than the total value of the tax cut (Stanford 2019). That is the tax cut was completely saved and then some.

Tax cuts not working

This highlights the big problems with trying to stimulate the economy by giving tax cuts. Much of the tax cuts went to people who are least likely to spend it, while those that are mostly likely to spend, low income earners, missed out. Cash payments to low income households and direct Government spending are more likely to stimulate the economy.

Paper thin surpluses

The government has chosen to retain the surplus as a supposed measure of its own economic credibility. The Treasurer, Josh Frydenberg, and Minister for Finance, Mathias Corman have boosted that 'surpluses of $5 billion this financial year and cumulative surpluses of $23.5 billion over the forward estimates are expected to be delivered' (Frydenberg and Corman 2019).

The government has projected surpluses through to 2022-23 ranging from 0.2 per cent of GDP in 2022-23 to 0.4 per cent of GDP in 2021-22. These are fairly small numbers which add up to $23.5 billion over the forward estimates (2019-20 to 2022-23). These relatively small numbers may well turn into deficits simply because the budget balance is the difference between two large and volatile magnitudes. As an example, in just the period between the PEFO in April and the MYEFO in December parameter and other variations over which the government has no control reduced the total budget balance over the forward estimates by $13.5 billion. Policy decisions reduced the balance by another $8.1 billion.

The projected surpluses already look paper thin. However, there is a bit of a change in accounting which improves the government's budget balance. Footnotes in various tables in the MYEFO report:

> Under the Future Fund Act 2006, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings[1]

Table 1 shows how this accounting change has substantially changed the pattern of projected surpluses. It also includes the changes between the PEFO and MYEFO. The MYEFO projections are highlighted in Table 1.

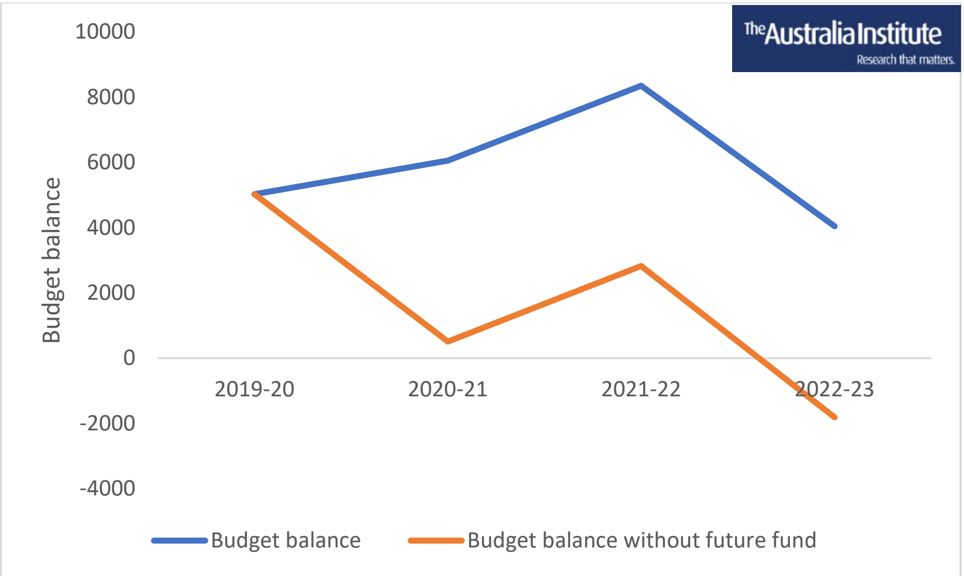
[1] This footnote is repeated in Tables 3.2, 3.5, 3.6, 3.17, 7.3.

Table 1: Underlying cash balance

	PEFO ($million)	MYEFO ($ million)	Future Fund earnings ($ million)	Budget balance without Future Fund after 2019-20 ($ million)
2019-20	7,054	5,028	5,468	5,028
2020-21	11,003	6,054	5,542	512
2021-22	17,792	8,351	5,527	2,824
2022-23	9,165	4,044	5,857	-1,813
Total	45,011	23,476	22,393	6,551

The second and third columns in Table 1 show the substantial deterioration in the projected budget balances between April's PEFO and December's MYEFO. Column 4 shows the earnings of the Future Fund which are not included in the 2019-20 surplus but are in the later years. The final column shows what the budget balance would have looked like had the accounting treatment of the future fund been consistent with the years 2005-06 to 2019-20. The data in Table 1 is used in Figure 1.

Figure 1 – Underlying cash balance with and without future fund earnings

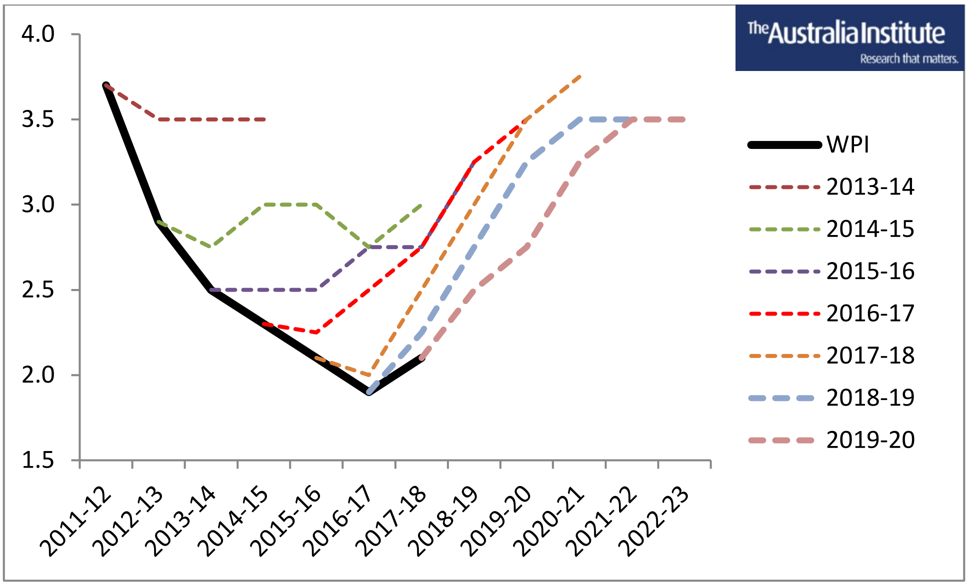


The figures in column 5 of Table 1 show the balance shifting into deficit in 2022-23. Hence it was very convenient for the government to arbitrarily decide to change the accounting for the Future Fund by moving it from off-budget to on-budget.

Other hidden numbers

While there has been significant downgrading in the MYEFO, the Government's projection for wages growth is still very rosy. The Government has a poor track record predicting wages growth and has consistently overestimated how fast wages will grow. Faster wages growth means people earning more and hence paying more income tax.

Figure 2 - Budget papers WPI forecasts versus actual WPI



Source: Various budget papers

The Government also has other hidden issues with its forecast numbers. This includes $2.1 billion that it has booked in extra revenue from its robodebt scheme. Robodebt is now in doubt with the courts deciding that some of the debts are illegal. MYEFO concedes this but says it is unable to calculate how much the Government's revenue will be hit by. Some of the $660 million that has already been collected is also in doubt.

Conclusion

The Government has allowed itself to be distracted by its determination – at all costs- to reach a budget surplus. A sounder focus would acknowledge the economy has not been this weak since the GFC. The Government should begin to take seriously the advice from groups like the RBA and IMF, which have called for action to stimulate the economy. Running a budget surplus should not be regarded as good economic management in itself. Instead, running an economy that improves the living standards of people is where the overall focus should lie.

REFERENCES

Frydenberg J and Corman M (2019) '2019-20 Mid-Year Economic and Fiscal Outlook', *Joint media release: Treasurer and Minister for Finance*, 16 December.

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Stanford J (2019) *Tax cuts Invisible in Slowing Economy*, Centre for Future Work, available at <https://www.futurework.org.au/tax_cuts_invisible_in_slowing_economy>