

**TITLE: National economies cannot be compared to household budgets**

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Contrary to the speeches made by many politicians, national economies are not like households. Indeed, the household management analogies that politicians often use to explain their approach to budgetary policy are rarely useful or appropriate. The way the Coalition is using the analogy is simply bizarre; they seem to have confused micro-economics and macro-economics.

While all oppositions seem convinced that they possess superior micro-economic skills, history suggests that the differences in the performance of political parties has more to do with the selection of their pet projects and hobby horses than some fundamental disparity in organisational ability.

The fact the Coalition claims to have identified tens of billions of dollars in potential micro-economic savings does not mean that spending tens of billions of dollars less than the current government constitutes good macro-economic policy. Indeed, the two issues are barely related in economic terms. Unfortunately, in political terms, the two have become inextricably entwined.

The world economy, and as a result the Australian economy, is slowing. This has prompted the Reserve Bank to cut official interest rates to their lowest ever level in order to pump up domestic economic activity. The slowdown in activity that is worrying the Reserve Bank Board is the same slowdown that has caused tax revenues to fall well short of expectations. The macro-economic question for the government and the Coalition is simple. What if anything should the government be doing about that?

Last week's budget speech and the Opposition leader's reply have highlighted a sharp division between the two on the answer to that question but neither answer is terribly coherent.

The Treasurer is allowing the "automatic stabilisers" in the budget to increase the deficit but he is not taking active steps to stimulate the economy, such as those taken by the Rudd government when the economy began to slow in 2009.

The Coalition, on the other hand, has taken a leaf out of the austerity play book and seems to believe that even though the RBA is trying to stimulate the economy, the government should be reining in spending faster than revenue is declining. This is where the household management analogy really gets in the way of sensible debate.

First, there aren't many families who cut back their hours of work because they get a cheap deal on a trip to Fiji. The fact that the Coalition thinks it can do more with less doesn't mean that it's good for the macro economy for them to cut spending at the same time the private sector is tightening its belt.

Second, there aren't many families who sell their second car when one member takes some time off work to have a baby or for temporary illness. While the Opposition talks as if no well-run household would ever run a deficit, the fact is that most households do exactly that at certain points in their life.

Households run deficits in some years and repay their loans in the future. Most small businesses would have weeks, or even months, each year where they run deficits knowing that they will repay the debts they accumulate when their business picks up again.

Running a household, a business or an entire economy is more difficult than ensuring that revenue equals expenditure in all arbitrary periods.

All governments and oppositions should be vigilant in the search for wasteful or inefficient government spending. But it does not follow that because waste can be found in one area of government less money should be spent overall. From a micro-economic point of view money saved from one bad idea can be used to deliver more money for a good idea. From a macro-economic point of view the fact that a new government could spend less money the minute they get elected doesn't mean that it's good for the macro economy for them to do so.

If Australia is to prosper in the next decade we need more attention paid to the subtleties of economic policy and less emphasis on analogies that confuse households with entire economies.

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