

WORKING TITLE: Talk to the hand: Hockey is living in a budget fantasy land

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Joe Hockey's "do nothing" budget is better than his first "do harm" budget, but he still hasn't tackled the big issues that face Australia in the wake of the mining boom, writes Australia Institute executive director and economist Richard Denniss.

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The economy described in the budget is different to the economy that real people live and work in. The budget papers describe a fantasy land full of magical forecasts, nice round numbers and optimistic assumptions about the world economy. The main thing you need to know about budget forecasts is that they are invariably wrong.

In his second budget Joe Hockey tries desperately to make a virtue of how bad his previous forecasts have been. The Treasurer loves to tell us how the iron ore price is falling! Falling! But what he doesn't mention is that the iron ore price is still well above its long-term average. Apparently we are supposed to cut him some slack because his optimistic commodity price assumptions turned out to be so spectacularly wrong last year. Sorry Joe, in the private sector a forecast that bad would cost you your job.

Not in budget fantasy land, though. Having spent five years telling us that Labor's debt will cripple the economy, Hockey is now telling us that steadily rising Liberal debt will be good for us. Indeed, despite predicting that Labor's debt would cause the sky to fall, the Treasurer adopts a decidedly optimistic tone when predicting how the economy will fare under his rising levels of debt. This optimism is based on the fact that in budget fantasy land, it's true if the Treasurer says it is. We are through the looking glass, people.

Hockey began his speech with the claim that "the economic plan laid down by this government more than a year ago is in place and helping us deal with [our] challenges". He then went on to

give a budget speech built on the wreckage of last year's budget announcements. To recap, in the last 12 months the Abbot government has:

- Scrapped the Medicare co-payment;
- Scrapped the plan to force young people to wait six months to qualify for unemployment benefits;
- Scrapped the cuts to the age pension; and of course
- Scrapped the paid parental leave scheme and announced cuts instead.

If that was what the plan looked like, imagine what would happen to this government if anything unexpected happened.

Like his first budget, Joe Hockey's second budget is built on hope. The Treasurer hopes that commodity prices don't continue their free fall, he hopes that the world economy will pick up and he hopes that the Senate will pass the enabling legislation required to turn his plans into policies. History would suggest that is a risky bet.

Australia is emerging from a once in a century mining boom with little to show for it. The full impact of big tax cuts and generous middle-class welfare introduced by Peter Costello at the beginning of the boom are finally becoming obvious. Similarly, the cost of tax concessions for superannuation and the decision to keep the compensation package for the carbon price while discarding its revenue are weighing down our public finances. Despite saying he wanted to start a "national conversation" about tax, Hockey's second budget speech tells us to talk to the hand.

Despite the fact that the cost of tax concessions for superannuation is rising nearly three times as fast as the cost of the age pension, the budget speech makes a virtue of the Treasurer's determination to ignore the issue. The Treasurer has also chosen to avoid reforming negative gearing, capital gains tax discount and the diesel fuel rebate. But despite his refusal to clamp down on the loopholes and tax concessions that make our tax system so complicated and unfair, Hockey still expects to collect a lot more revenue in the coming years. It will nearly all come from so-called bracket creep.

As Australian incomes rise with inflation and productivity growth, a larger share will be taxed at higher tax rates. While Joe Hockey thundered about the inequity of these gradual increases in average tax rates when he talked about the intergenerational report last month he was silent about it in his budget speech tonight. If he were serious about addressing bracket creep he would have used his second budget to close inequitable loopholes and hand some of the revenue back in the form of personal income tax cuts.

Hockey's decision to avoid genuine tax reform is symptomatic of his whole approach to crafting his second budget: he has avoided making any hard decisions. While the government is to be

commended for abandoning the bad ideas announced this time last year, the budget, and the Australian economy, needs more than this “steady as she goes” blancmange.

The macro economy is slowing, unemployment is rising, commodity prices are falling and demand for our biggest exports is more likely to fall than rise. While it was inevitable that the budget speech would ignore climate change it also ignored higher education, research and development and a genuine strategy to foster innovation.

While Joe Hockey’s “do nothing” budget is better than his first “do harm” budget, the economy will likely pay a long-term price for his refusal to tackle the revenue and economic challenges a post-mining boom Australia will face.

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