

TITLE: There's nothing nostalgic about a budget

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A lot of the debate in Australia reflects concern about our future and how budgetary pressures are likely to evolve.

The backdrop of the discussion is a profile of the predicted population in 40 years, what that means for expenditure and how we should be preparing for that outcome.

The intergenerational reports have provided a useful service by presenting projections 40 years ahead and examining what is likely to happen given present demographic and other trends. But how seriously should we treat these predictions?

We are coming to the end of the 2012-13 financial year and the budget outcome is likely to be much different to the course set for us in May 2012 when a small surplus was projected for 2012-13.

The latest assessment is that we will have a deficit of \$19 billion. That represents a swing from 0.1 per cent of GDP to *minus* 1.3 per cent of GDP.

If we can be out by 1.4 per cent of GDP in the space of 12 months, how valid are any estimates of our position in 40 years' time? If those sorts of errors are cumulative and in the same direction, then the error in 40 years would be very large indeed.

Even if we could accurately project that far ahead, would it matter? Suppose we knew exactly what the economy would look like in 40 years assuming no policy change. That exercise is completely silent on the opportunities and problems the nation might face and the solutions it may choose. But let's look *back* 40 years.

In 1972 the McMahon government presented a budget that had a surplus of \$348 million or 0.7 per cent of GDP. In 1972-73 the national economy was much smaller with a GDP of \$49.7 billion, one 30th the size of the present economy. Thinking about that era it all seems so irrelevant to us now. That was before Medicare, before fault-free divorce, China was not recognised and the internet did not exist, even in science fiction.

Nobody ever comments on how the last McMahon budget affected the situation we now experience and given the vast imbalance in the size of the economy then, compared to now, it is difficult to think how anything the McMahon government did could possibly have much effect today.

If similar trends persist into the future then our projections about the economy in 40 years are concerns about an economy that could be 30 times bigger than the present economy. The recent budget made sacrifices in the context of ageing pressures over the next 40 years, which seems very noble of us. But we can be sure of one thing, in 40 years almost no-one will remember the 2013 budget - just like almost no-one remembers the last McMahon budget.

Moreover there is almost nothing we can do now that would be irreversible over the next 40 years. Any of the governments over that time could decide to reverse the 2009 decision to increase pension payments or the series of tax cuts made during the late Howard government years and into the Rudd government. It is possible that the governments between now and 40 years' time may reverse the decision to cut sole parent benefits when the youngest child reaches eight years old.

So why are we so keen to make such long run projections and frame policy with a view to the very long run?

The National Commission of Audit that reported to the Howard government in 1996 called for the publication of intergenerational reports to, in the words of the report: 'address emerging social and budgetary pressures, urgent action is needed to moderate community expectations of government assistance'.

That was the genesis of the intergenerational reports - essentially a public relations exercise designed to convince voters that there would never be enough in the kitty to do the things that voters might expect from government.

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