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**TITLE:** Why the obsession with a budget surplus?

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Budget one-upmanship in Australia has moved beyond the balanced-budget obsession of the 1990s to the new aim of producing an ongoing surplus, the bigger the better, under which it is taken for granted that everyone will be better off.

Despite the recent natural disasters offering good reasons for the Gillard Government to reassess its commitment to returning the budget to surplus in 2012-13, the Government has ploughed on, instead deciding that it would prefer to trim the budget rather than face up to a posturing Opposition. Indeed the finance minister, Senator Penny Wong, has defended the need for budget cuts by arguing that “spending today is locking in a tax burden tomorrow”.

It is not clear what Penny Wong meant by ‘tax burden’ but most likely she’s referring to the need to fund the interest costs on the additional debt due to government spending. Figures to be released on budget night are likely to show that debt is around six per cent of GDP. Sounds scary? After World War II Australia’s debt was well over 100 per cent of GDP so things must have been really bad then, right?

Actually it’s hard to find any evidence that the people in the post war decades were worse off as a result of the level of public debt.

The Government has made it clear it wants to return us to a surplus of at least one per cent of GDP. What this means is the Government will spend less on services and infrastructure than it is raising in revenue, mainly taxation. One per cent of Australia’s GDP at the moment is around \$13 billion.

Or put another way, a surplus target of one per cent of GDP means raising \$13 billion more than the Government needs to match its spending.

In practice a one per cent surplus target means taxing the average individual taxpayer \$1,300 per annum more than is necessary. Or the alternative could be reducing the company tax rate. Without the commitment to a one per cent surplus the company tax rate

could be dropped to 23 per cent. But we need not focus on tax cuts. There is any number of other un-met needs in Australia that could be addressed; everything from more resources for mental health to fixing the infrastructure that was damaged by the summer rains.

The notion that a big surplus is always preferable has been accepted uncritically for too long. Many economic commentators seem to want to wage war on deficits despite the financial markets actually needing a large supply of Australian Government securities. The fact also remains that Australian Government debt is also very low compared with other developed economies.

So why the obsession with surpluses?

Over time, and especially since the ideological approach of the Howard Government, private-sector principles having increasingly, and inappropriately, been applied to the public sector. While the owners of a private business clearly hope it runs at a profit so that it can both survive and pay a dividend to its owners, the objective of a government is to raise resources to fund public activities or investments that, for various reasons, are better performed by government. While paying lower wages to contractors is unambiguously good for a company, paying lower pensions to pensioners is not unambiguously good for the country.

The notion that because a private profit is 'good', a public surplus must also be good hijacks a debate that is worth having: do we support government investment which can be used to improve social welfare or do we support fiscal 'discipline'? An obsession with surpluses is dangerous but, when combined with arbitrary rules about the level of tax governments can collect, the result is an undemocratic attempt to conceal choices from voters.

As well as a return to surplus, the Government has also committed to keep tax to what it was in 2007-08—itself an arbitrary amount—which effectively rules out reversing the Howard Government's overly generous tax cuts for the wealthy. This means the early return to surplus will be achieved by cuts to much more worthy causes.

Occasionally, there are good reasons to run a budget surplus, such as when the economy is genuinely overheating. Collecting more in taxes, limiting spending and thus increasing the surplus can be very effective at reducing the level of activity in the economy. But this decision should be based on macroeconomic demands, not because a government fears being labelled a bad economic manager.

While the Treasurer will no doubt argue as he delivers his budget on Tuesday that a return to surplus in 2012-13 will be 'right for its time', we might well question whether his surplus fetish is right for the country.

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