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Government's \$56bn Budget Blowout

This week the Business Council of Australia pointed out that the economy is fundamentally strong but there has been a collapse of fiscal discipline by the Government.

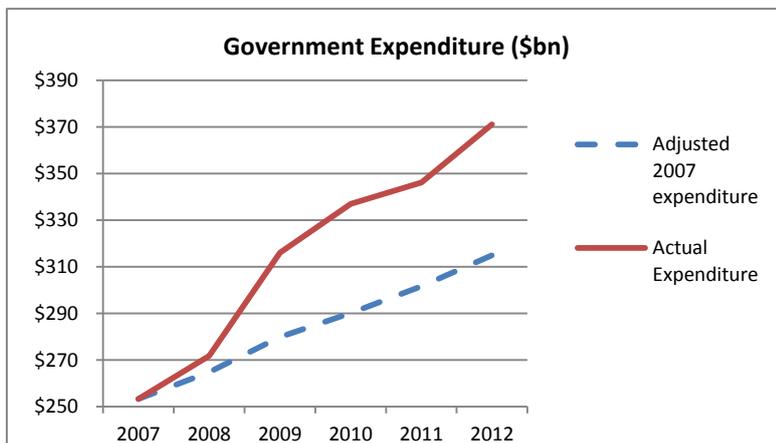
The Business Council is right – the Government does not have a revenue problem; it has a spending problem. It has spent beyond its means for the last five years and reality has caught up with it.

In understanding why the Federal budget is in a mess, it's important to know that tax revenue is not the root cause of the problem.

This was the first point SMSFOA made in its pre-budget submission back in January. (Extract attached) In particular, we referred to the fact that tax receipts in 2011-12 were 40% higher than in 2006-7. They dipped during the GFC but then grew strongly.

The real 'problem' with the Government's budget has been expenditure, which in 2011-12 was 46% higher than in 2007. The Government would not have a budget 'black hole' if it had not let its spending outrun its revenue.

That's the crux of the problem. In our submission we pointed out that government spending has increased over the past five years at a much faster rate than the increase in the population the government serves and the increase in inflation (CPI). The chart dramatically illustrates the point.



It takes government expenditure in 2007, adjusts it for inflation and the increase in population and then compares the result for 2012 with actual government expenditure. Just in 2012, excessive government spending, over and above population and CPI rises, was \$56 billion.

The cumulative extra spending by the government in the three years from 2010 to 2012 is \$147billion. This builds on the \$43 billion extra spending in 2008/09 in the GFC stimulus package. Instead of the GFC stimulus being a one-off measure to deal with extraordinary circumstances, it has simply been absorbed into general government spending, which has continued apace.

It is basic good housekeeping – for a family or a business or a government – to keep spending within the limits of income.

However, the government has committed to and then actually made huge amounts of expenditure above its income. Even a fraction of the \$56billion of overspending could have paid for disability care, education reforms or other important social and economic programs without the need for any extra taxes.

Why has this happened?

In looking at the increase in government spending over the past five years, no particular area of expenditure stands out. The impression is that there has been inadequate control of spending in virtually all government departments and programs. Like any large enterprise, expenditure needs firm management control or else it naturally blows out. This risk is greater when 'management' are politicians who are tempted to spend money they don't have and then rely on taxpayers to bail them out.

It will not be easy to wind general government spending back to levels that will allow the country to afford the major reforms currently being contemplated but that must be a priority task for the next government, whatever it's political hue.

SMSFOA was set up to address the clear danger the government would raid superannuation to try to make up for poor budget management. That danger became real on 5 April when the Government announced a new, retrospective tax on super earnings that will impact mostly on SMSFs.

SMSF members now have an anxious wait to see whether the May 14 budget will further siphon off their super savings to help the government with a problem of its own making.

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