



The Stubborn Budget

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Rarely have deliberations over the basic elements of a Commonwealth budget lasted so long.

The budget has always been the centrepiece of the Australian political year. It is a focal point of policy development. Nearly all major government programs policies are formulated for the budget and shaped by the pre-budget haggling. And no budget is more significant than a government's first—particularly for those governments that have inherited a deficit.

Yet even by these heady standards the Abbott government's budget has been remarkable. It is a shadow over the entire parliament.

First the obvious: the budget was poorly presented, and has been poorly sold since. There is no dispute about that. It should not have been so closely tied to the far more radical Commission of Audit. The two were released within a fortnight of each other. Focus groups have found that voters



conflated the budget and the audit—the radicalism of the latter being associated with the more modest former.

Nor should have its measures as such a surprise. Controversial policies need to be explained. But rather than dedicating weeks to laying the policy and political foundations of the Medicare co-payment, the government had repeatedly rejected the very thought of such a thing.

When the co-payment popped up in the budget not only was it a shock to voters, but it was a breach of faith.

That's the politics, anyway, that have led us to where we are now.

Many commentators write as though a policy and the way it is communicated are two distinct and separate things. We saw a lot of this during the Gillard government— Labor's media friends said that the government had great policies but was simply terrible at communicating them. This might be comforting for partisans but ultimately policy speaks louder than spin.

In many ways Medicare co-payment is illustrative of deeper problems with the budget. Let's be clear: giving patients a closer financial stake in their health decisions is a good thing. Medical care is not free. Nor is the vast Medicare apparatus. The price of healthcare is filtered through a series of fiscal illusions —the subsidised general practice visits, the apparently free bulk billing, and then the illusory pay-for-service that constitutes the Medicare levy on our tax return. A co-payment gives patients an incentive to control their health costs and contributes to the overall sustainability of the system.

But that's not strictly what the Medicare co-payment does. Rather than being directed towards the cost of running the health system, the money raised by the Medicare co-payment is going to be redirected to a medical research fund—the largest in the world, we were told on budget night.

From a fiscal perspective, this doesn't make much sense. Is there a debt and deficit problem or not? But worse, it makes the Medicare co-payment look less like a financial stake in healthcare decisions, and a lot more like a tax on doctors' visits to fund a political boondoggle.

Likewise, many of the policies announced in the budget are too clever by half. Some of the most controversial ones save very little money. The work for the dole welfare changes only recoup \$1.2 billion over the next four years. This is chicken feed for a government that is projected to spend \$1.7 trillion in the same period.

The deficit levy—a 2 per cent tax upon those earning above \$180,000— will raise just \$3.1 billion over the forward estimates. It appears to have been imposed just so the government could look like it was sharing the load. This is quite an innovation in fiscal policy: symbolic taxation.

But in the end the biggest problem with the federal budget is that it does little to seriously tackle Australia's bloated Commonwealth government. Both taxation and revenue will continue to grow over the budget projections.



This financial year real expenditure will drop by 1.7 per cent, but will increase every year onwards—0.4 per cent in 2015-16, 2.1 per cent in 201617, until it is back growing at a steady 2.6 per cent per year in 2017-18.

And the government's tax take will increase from 23 per cent of GDP to 24.9 per cent by 2017-18.

With its first budget, the Abbott government had an opportunity to permanently slash the size of government, to change the fundamental relationship between society and the state, to be, as the *IPA Review* urged in 2012, the right-of-centre Gough Whitlam.

Unfortunately it did not take that opportunity.