Treasurer Scott Morrison described the federal government's Mid Year Economic and Fiscal Outlook (MYEFO) as "optimistic but very realistic" as it holds onto the forecast of returning the budget to balance in 2020-21.

Our expert panel of economists take apart the MYEFO figures to see how the forecasts hold up and what has changed since the budget.

Ben Phillips, Principal Research Fellow, Australian National University

The 2016 MYEFO shows that the budget balance is in the red to the tune of A$36.5 billion for this financial year and is not projected to return to surplus until 2020-21. This year will be the federal government's ninth straight budget deficit and projections suggest we'll get to 12 deficits. Deficits are the norm for Australia's government as they are for most governments around the world.

Government budgets are not like household or business budgets. Long runs of deficits are typical and don't necessarily imply that the economy is in a dire position.

What should be of more importance is government spending in investment in programs that offer Australian society a longer-term dividend and quality taxation rather than balancing the budget. Unfortunately, it's much simpler to focus on one number – the budget deficit or surplus.

Current policy settings are largely based on the continuation of what should have been viewed as a temporary income boom for Australia. Successive governments lowered average rates of personal income taxation and to a lesser extent increasing government spending. There is little evidence that these tax cuts inspired economic growth through increased workforce participation. Most of the beneficiaries either continued working their existing hours or were retired anyway.

Weaker income growth across the economy, and specifically modest wage growth limiting bracket creep, means it’s taking much longer to recoup revenue losses. Extremely generous tax treatment for superannuation accounts and older Australians means that lower revenue streams are locked in for years to come.

To return the budget to surplus the government needs either to unwind the significant tax breaks or make very significant cuts to government expenditure. With a weak economic outlook, such bold measures are both politically difficult and arguably poor economics for the moment. In the longer term, reducing superannuation tax concessions for higher-wealth individuals would appear the most logical area to gain tax revenue with minimal economic disruption.

The reality is, barring Australia catching another lucky economic wave, we are set for continued budget deficits for many years into the future. While Australia does face serious fiscal challenges with an ageing population, with likely growth in health and disability costs, good economic management by government should be judged by the quality of spending and policy reform first and foremost.

Janine Dixon, Economist at Centre of Policy Studies, Victoria University

To return to surplus by 2020-21 will require a perfect storm of strong economic growth, strong terms of trade and fiscal restraint. The factors driving economic growth are far from assured over the next four years.

MYEFO relies on a massive 4.5% increase in non-mining investment in 2017-18, driving capital stocks that will underpin economic growth and wage growth over the forecast period. If this doesn’t eventuate, wage growth will continue to be weak as it has been over the last three years, holding back nominal economic growth and, importantly, the tax base.

MYEFO also relies on unemployment trending downwards, and expects to make use of underemployed workers who presently constitute “spare capacity” in the labour market. Underemployment has risen steadily since about 2011, which certainly points to some capacity for growth if those people can be employed in the economy.

However, to realise economic gains the government will need strategies for reducing underemployment: the National Disability Insurance Scheme (NDIS) is an example of a policy that may enable some parents and family carers of disabled people to increase their participation in the workforce. The federal government will also need to rely a lot on state governments to facilitate the reduction in underemployment. For example, improving transport infrastructure and urban planning to improve access to work is key to reducing underemployment.

The terms of trade increased by 4.4% (seasonally adjusted) in the first quarter of 2016-17, driven by recent improvements in prices for iron ore and coal.

This improvement will need to continue to meet MYEFO’s forecast terms of trade growth of 14%, substantially revised from 1.25% growth in this year’s budget. This will provide the lion’s share of the extra revenue that reduces this year’s forecast budget deficit from A$37.1 billion to A$36.5 billion. The rally in commodity prices is expected to be temporary and much of the increase is undone in the following year.

Even if the stars align so that investment and employment growth are strong and – after a temporary spike in the terms of trade – commodity prices don’t fall too far, restraint will still be required on the part of the government.

Starting from a position of deficit, the budget needs to improve relative to the economy: just treading water will not return the budget to surplus. Spending is already stretched and should not be reduced further.

The government should instead consider reforms on the revenue side, starting with superannuation and negative gearing. The budget cannot be allowed to blow out any further, with risk to our AAA rating already apparent.

The return to surplus is not the be-all and end-all of budget management. Deficit-funded infrastructure investment will and should continue to play an important role in our economy.

John Daley, Chief Executive Officer and Brendan Coates, Fellow, Grattan Institute

The first step on any path to solving a problem is to recognise the scale of it. Successive Commonwealth governments have projected a happy return to budget surplus on the back of projected revenue increases. But each year the government acts surprised when the reality of these higher revenues recedes further into the future. Today's MYEFO is more of the same.

The updated MYEFO projects revenues downgraded by A$39 billion over the four years to 2019-20, compared to the pre-election fiscal update released just seven months ago. An unexpected boost to commodity prices lifted corporate tax receipts and spending was A$17 billion less than previous projections.

These were more than offset by slower wages growth and lower corporate tax revenues from the non-mining sector. But the government is still claiming the budget will be back in the black by 2020-21, again driven by projected revenue increases.

Optimistic budget projections have allowed successive governments to avoid facing up to the challenge of budget repair. And that's clearly worrying the credit ratings agencies.

The Commonwealth has now run budget deficits of 2-3% of GDP for eight years. Eventually that becomes a real problem: while Australia's public debt to GDP remains low, it is increasing faster than most other countries in the OECD.

Genuine budget repair will require tough choices. Yet there is no point offering up budget savings initiatives with no prospect of passing the parliament. The government could buy parliamentary support by supporting the wish lists of the Senate crossbench, but as the recent experience of the ABCC shows, such horse-trading can be expensive.

Instead, it may be easier to reach across the aisle to Labor, or the Greens, who recently supported the government's reforms to super tax breaks. Some of the Turnbull government's most realistic chances to improve the budget will be to increase taxes – such as by winding back age-based tax breaks, or reducing the capital gains tax discount.

It will also need to tighten spending – and to spread the burden so that it's not seen to target those worst off. It won't be politically easy, but eight straight years of budget deficits should be enough to convince anyone that more of the same is not enough.

Sinclair Davidson, Professor of Institutional Economics, RMIT University

Despite four prime ministers and four treasurers since 2013, Australia's budget situation has not improved. Only Chris Bowen has no case to answer as his time as treasurer was too short for any serious budget repair work to have been attempted.

It was the then prime minister Kevin Rudd who initially unleashed the spending and Julia Gillard who added fuel. Their treasurer, Wayne Swan, seemed to think that given enough time the economy would grow the budget out of deficit. To be fair, every treasurer since has adopted the same strategy.

That allowed for the introduction of high-spending programs such as the National Broadband Network (NBN), Gonski education funding model and the National Disability Insurance Scheme (NDIS). Treasurer Swan wasn't averse to silly tax proposals that either raised no revenue, or added substantial costs to the economy and households for little gain.

A change in government in 2013 should have brought a return to sensible economic management. But no. The Abbott government did get around to repealing the mining tax and carbon tax but didn't seem to feel any urgency in doing so.

The debt ceiling was abolished too. That was one mechanism introduced by the Rudd government that could have delayed the enviable blow-out in debt (from A$319.5 billion in the 2013-14 federal budget to A$498 billion in the MYEFO).

A constant drip feed of reports of the government having to approach the parliament to raise the debt ceiling would have placed some political pressure on the government. But politicians don't like accountability for themselves, and the debt ceiling was abolished well before the carbon tax or mining tax.

Joe Hockey's first budget was incoherent. Spending was forecast to increase from $410.7 billion in 2013-14 to $412.52 billion in 2014-15. The budget deficit was initially forecast to be $29.8 billion. We now know the deficit was $37.9 billion that year – the MYEFO forecasts a $36.5 billion deficit for 2016
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Liberal propaganda blamed the parliament's refusal to pass "budget savings" – a hodgepodge of incoherent and/or poorly explained tax increases. Hockey's second budget was a cash splash for small business – but again lacked any serious purpose or intent to rein in excessive expenditure. Luckily a new prime minister and treasurer saved us from a third Hockey budget.

Despite promising early signs, the Turnbull-Morrison combination has been disappointing. The government is easily distracted and appears timid on the economic front.

There is also a complete lack of goodwill on the electorate's part. Mind you, after several years of lacklustre economic performance and second-rate political leadership it is not surprising that the electorate is grumpy.

So the poor budget figures should be no surprise. While the AAA rating remains intact for now, we should not be surprised that a downgrade remains a real possibility.

Our friends in Canberra have no idea how to return the budget to surplus. This lack of imagination and initiative is bipartisan. Losing the AAA rating would be a lagging indicator of a continued, sustained and persistent failure to rein in spending and restore the budget to surplus.

http://theconversation.com/2016-17-myefo-experts-response-more-of-the-same-is-not-good-enough-70585