

There are two big political problems buried in the latest budget update

Written by The Conversation

Whether or not we end up in surplus in five years' time, [yesterday's Mid Year Economic and Fiscal Outlook \(MYEFO\)](#) exposes nasty political problems for the Turnbull government in the here and now.

Real GDP growth for 2016-17 has been sensibly but shockingly revised down to 2% – the lowest outcome since the global financial crisis, the second lowest in 16 years and the third lowest since the long upswing began in 1991/92. Sensible, because we know, from the third-quarter GDP numbers and other indicators this year, that the upswing in residential investment has peaked before (and perhaps well before) an upswing in business investment has begun.

Shocking, because if labour productivity continues to run a little above 1% – as it has for the last four years – the implied growth in employment of 1% or so will probably not be enough to stop unemployment rising. The MYEFO projects the unemployment rate in the June quarter next year at 5.5% – lower than today and lower than the average of 5.8% over the last four years.

Yet, at 2.6% year average GDP, growth in those four years has been markedly stronger than the 2% MYEFO now projects for 2016-17. Even with the projected decline in the participation rate, the MYEFO unemployment forecast will be a struggle.

Disappointing GDP growth is political problem number one for Malcolm Turnbull and Treasurer Scott Morrison. Problem number two is the implacable persistence of substantial federal deficits.

These deficits limit the government's response to problem number one. In 2012-2013 government receipts were 23.0% of GDP, payments 24.0% of GDP, and the deficit 1.2% of GDP. Labor lost office a little over nine weeks after the end of that fiscal year.

In these latest projections for the 2016-17 Budget, four years on from 2012-2013, receipts are expected to be 23.3% of GDP, payments 25.2% of GDP and the deficit 2.1% of GDP. Compared to 2012-13, receipts have increased 0.3% of GDP, spending 1.2% of GDP and the deficit 0.9% of GDP. Receipts are up, but spending is up even more and so is the deficit.

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There are plenty of reasons for this woeful fiscal performance, mostly to do with modest increases in profits and wages and the tax-minimisation policy of former Treasurer Peter Costello. But these reasons are not ones that square with Treasurer Morrison's rhetoric, or which can any longer be laid at the door of the previous Labor government.

Nor does the MYEFO give any confidence that the troubles of the Turnbull government will soon be eased. The path to the return to surplus depends completely on increasing tax revenue.

Spending as a share of GDP is now, according to these MYEFO projections, locked in at 25.2% of GDP right through to the end of the forward estimates period (and beyond the next election) in 2019-20. The projected decline of the deficit arises only because tax receipts are expected to increase over that period by 1.6% of GDP.

A slow economy, a rising tax take, perhaps rising unemployment, and not much room to move. 2017 won't be cheerful for the prime minister or treasurer – or for the rest of us.

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