

Budget policy check: Treasurer Scott Morrison's speech

Written by Charis Palmer, Deputy Editor/Chief of Staff

In our budget policy checks we look at the government's justifications for policies in the budget and measure them against the evidence.

In this piece we look at Treasurer Scott Morrison's speech.

Treasurer Scott Morrison has laid out his budget plan to further strengthen Australia's economy, with a focus on constraining both spending and taxing.

As a Government we have put constraints on how much we spend and how much we tax, to grow our economy and responsibly repair the budget.

Real expenditure growth remains below 2%, the most restrained of any government in more than 50 years... We are also keeping taxes under our policy speed limit of 23.9% of GDP set out in our fiscal strategy.

Higher taxes to chase higher spending never ends well. Australians always end up paying for it one way or another.

Economist and tax expert John Freebairn says capping tax revenue is an arbitrary measure that overlooks the many potential reforms to the tax system that are revenue-neutral.

And, says Freebairn, the wide range in tax-to-GDP ratios around the world – from the United States at 25.9% to Denmark at 49.6% – shows that there is no one answer.

Identifying the right level to tax is obviously contentious, but an evidence-based approach would

ensure that tax is at a point where the benefit to society of additional government spending no longer exceeds the distortion cost of raising the extra tax.

Tax relief is the biggest budget expense, costing the government A\$13.4 billion over the forward estimates. This includes an immediate (albeit small) tax offset for all taxpayers, and for low- to middle-income earners, an increase in the upper threshold for three tax brackets.

Everyone pays the price of higher taxes. It weakens the economy and costs jobs.

Economist [Saul Eslake says households have been spending less in the last five years](#) because they have been paying more of their income in taxes.

And, he says, targeted personal income tax cuts, not funded by bigger deficits, could reduce the squeeze on households and make up for persistent low wages. The move will likely provide much more of a boost to the Australian economy than cutting company income tax.

Meanwhile, households are being promised good news about their electricity bills.

The National Energy Security Board estimates annual power bills will fall by A\$400 on average for every Australian household from 2020, following the introduction of our national energy guarantee.

The government continues to argue the case for a conservative emissions reduction and renewable energy targets to prevent against higher electricity prices.

We will maintain our responsible and achievable emissions reduction target at 26-28%, and not the 45% demanded by the Opposition. That would only push electricity prices up.

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And we will not adopt the 50% renewable energy target demanded by the Opposition that will also only put electricity prices up.

All energy sources and technologies should support themselves without taxpayer subsidies. The current subsidy scheme will be phased out from 2020.

Energy experts say increasing levels of renewable energy generation are just one of the many factors affecting retail electricity prices. Other factors include network costs, gas prices, changes in supply and demand dynamics and market competition issues.

Energy researcher [Dylan McConnell says](#) the assertion that high electricity prices are the consequence of renewable energy policies is incorrect.

The fifth pillar of Morrison's budget plan is "ensuring that the government lives within its means".

This is code for a continued crackdown on welfare cheats, but also includes ratcheting back research and development tax incentives, squeezing more tax out of multinationals, and finding a way to get revenue from the black economy.

A stronger economy keeps spending under control by getting Australians off welfare and into work. After record jobs growth, the proportion of working age Australians now dependent on welfare has fallen to 15.1% – the lowest level in over 25 years.

Public policy Professor Peter Whiteford says to understand changes in welfare spending we also need to [factor in changes in the context in which welfare dollars are spent](#). For example, population growth, the impact of an ageing population and changes in government policies and welfare categories, will all influence this.

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Whiteford says a better way to look at it is to compare spending over time, expressed as a percentage of GDP.

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