Aid Budget 2017-18

The macroeconomic context

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First impressions

- A pragmatic budget, one designed to get things done and get measures through the Senate.

- The standard Coalition ideology has been thrown out the window: big new revenue and spending measures.

- But does it tick the budget repair box? Possible, but underlying assumptions are probably overly optimistic.

- What is good and bad debt? Can it justify the infrastructure binge ($51bn next FY)? There are some merits here.

- What is the prospect for a break from the trend of continued cuts to aid? There is likely to be continued or greater pressure to limit recurrent spending. This is unlikely to be good for aid.
Recurrent spending seems under control:
Percentage change in real expenditure

ODA

Defence

Education

Health
Projections indicate a return to surplus by 2021.
However, history indicates that these projections are far from reliable.
There has been a persistent gap between expenditure and revenue.

Revenue and expenditure share of GDP

- **Red line**: Actual Expenditure
- **Blue line**: Actual Revenue

Forecast period:

- 1995-96
- 1997-98
- 1999-00
- 2001-02
- 2003-04
- 2005-06
- 2007-08
- 2009-10
- 2011-12
- 2013-14
- 2015-16
- 2017-18
- 2019-20
The projected return to surplus is mainly driven by increased revenue.
But assumptions that underpin revenue are rather optimistic.

Although terms of trade assumptions in the budget are conservative.
Good versus bad debt

• “Good” debt is used to invest in capital that earn positive returns: e.g. infrastructure.
• “Bad” debt is used to pay for recurrent expenditure with little or no returns to government: e.g. social security.
• Taking capital spending into account implies a return to a new measure of budget surplus by 2018-19.
• Ultimately though, debt is debt, and whether it is good or not depends on the quality of the underlying spending:
  – Lots of examples of poor infrastructure spending
  – Education is mostly recurrent spending yet human capital earns positive returns
  – Recurrent spending can provide positive returns over time e.g. maintenance
• The distinction between good and bad debt is in part designed limit growth in recurrent spending.
Debt is being notionally allocated by portfolio.

Table 4: Change in borrowing requirements notionally allocated by portfolio

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Recurrent vs capital spending share of the budget: the $51bn infrastructure spend in 2017-18 only has a minimal impact.
This budget signals...

• ...a return to raising revenue to pay for new expenditure rather than just hoping austerity measures pass through the Senate.

• ...optimism about the economy and slight relief from the pain of the budget repair process.

• ...more government debt and likely increased pressure to reduce recurrent spending in the future. The aid budget remains an easy target.
Thank you
Budget jargon buster: Work through the waffle

Bamboozled by bracket creep, no idea about negative gearing? Use our jargon buster to help wrap your head around some of the terms being bandied about this budget.

OPINION Government spending from Howard to Turnbull in 10 charts

Ahead of the federal budget release, take a look back at the spending patterns of previous Australian governments from Howard to Turnbull.

Will your child's school win or lose under Malcolm Turnbull's education plan?

The Turnbull Government has revealed which 24 schools will have their funding cut under its proposed education changes. Did your child’s school make the list?

In search of Trough Man, an icon of Sydney’s 1980s gay scene

If Sydney ever had a superhero, maybe it was Trough Man: a character who lay down in the urinals at dance parties in the 1980s.

ABC budget related articles

Note to self: wrong type of trough
In-land rail – questionable
Focus on getting measures through senate, albeit higher educ a harder sell
17bn zombie measures
A doing something budget
Encouraging signs of pickup in exports values, although it is still early days and subject to uncertainty
Recent low wage growth – projects are based on a pickup but ??
TOT projections not optimistic – recent improvements reflect temporary supply disruptions, particularly in the coal market
Medicare guarantee fund ($33.8bn in 2017-18)
July 2019 MC levy increase by 0.5% point to fund NDIS
Tax receipts are expected to grow in line with improving domestic demand, wage growth and domestic price growth.