Aid Budget 2017-18

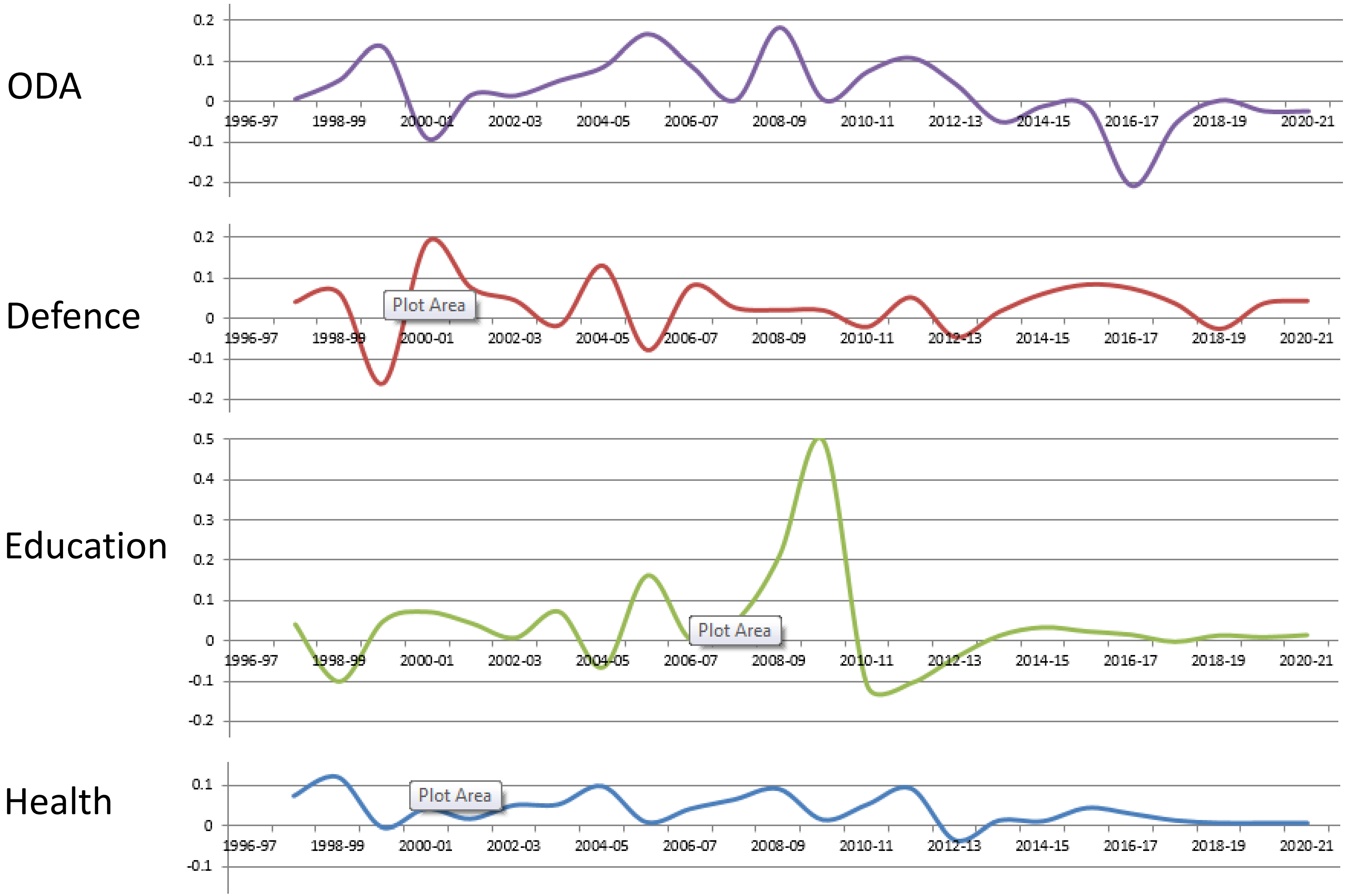
The macroeconomic context

Anthony Swan
Development Policy Centre

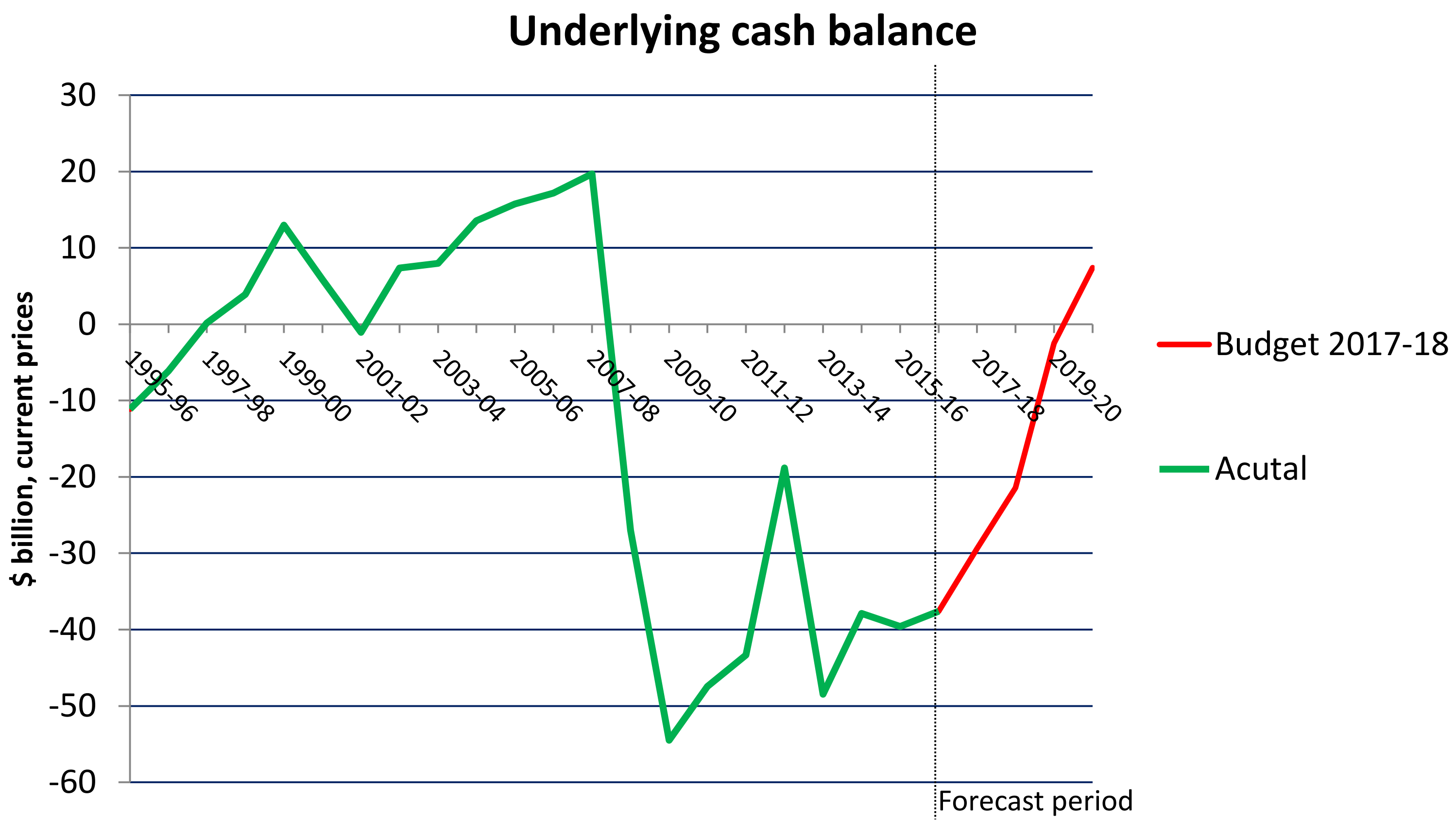
First impressions

- 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.

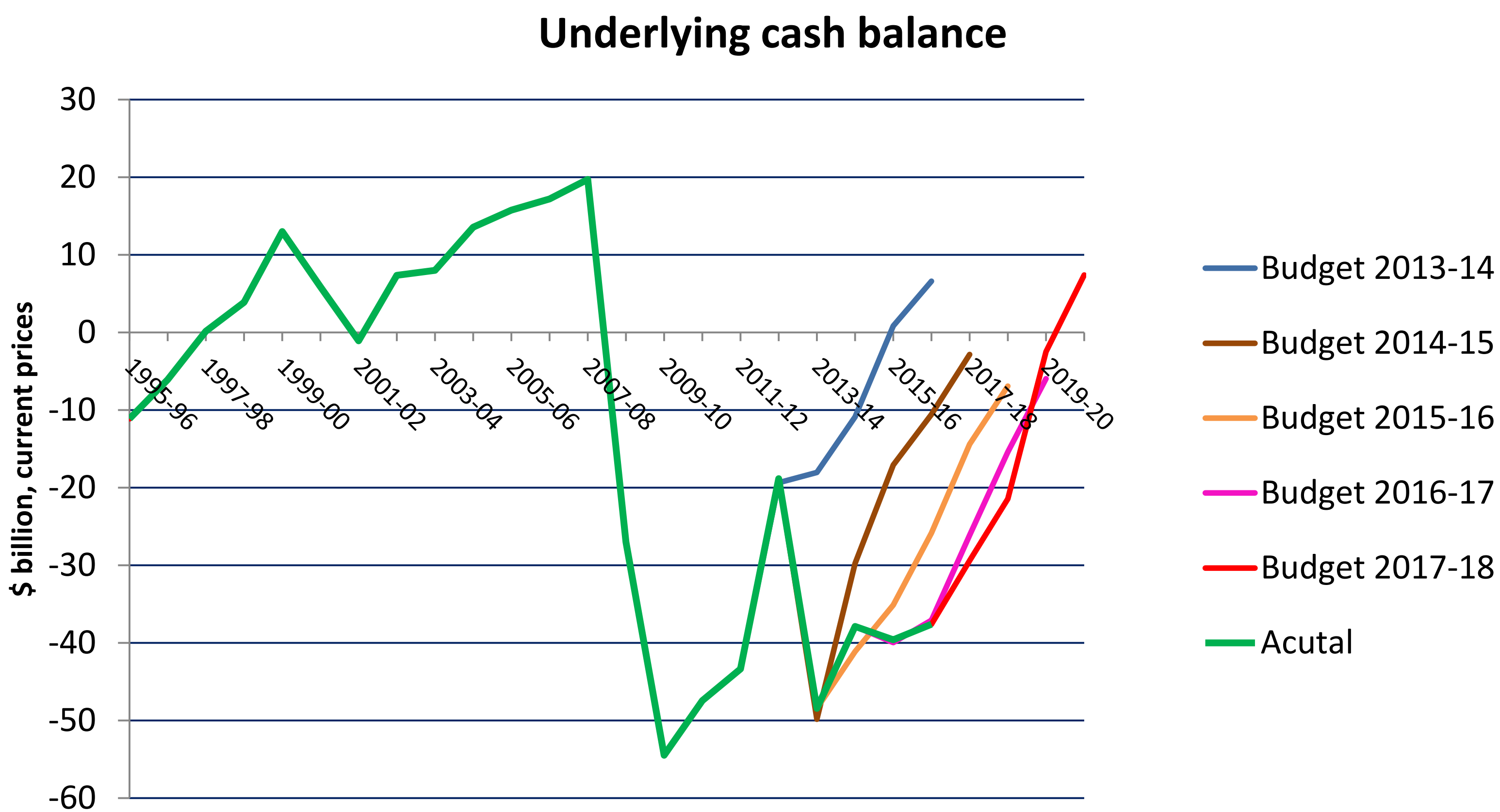
Recurrent spending seems under control: Percentage change in real expenditure



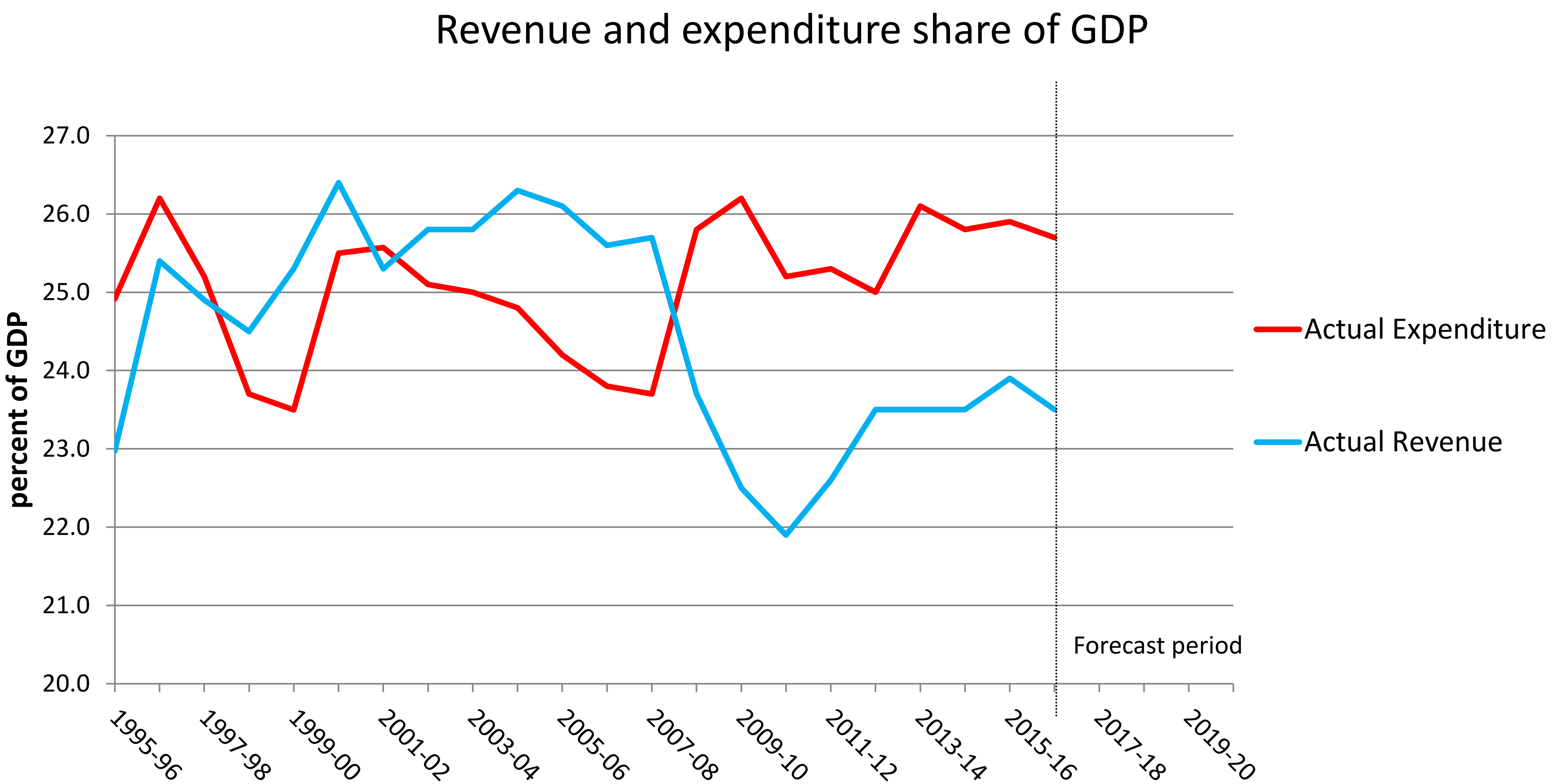
Projections indicate a return to surplus by 2021



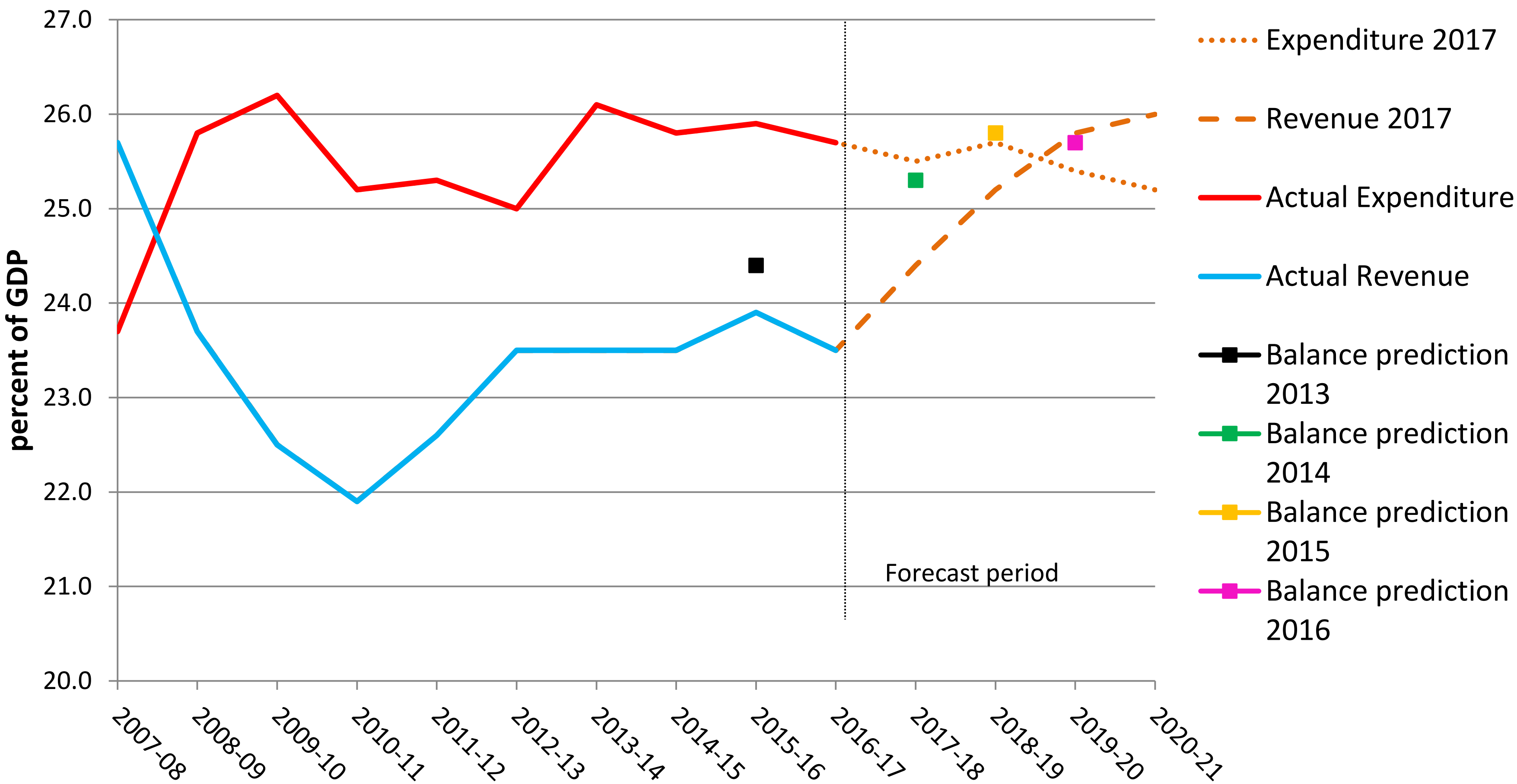
However, history indicates that these projections are far from reliable.



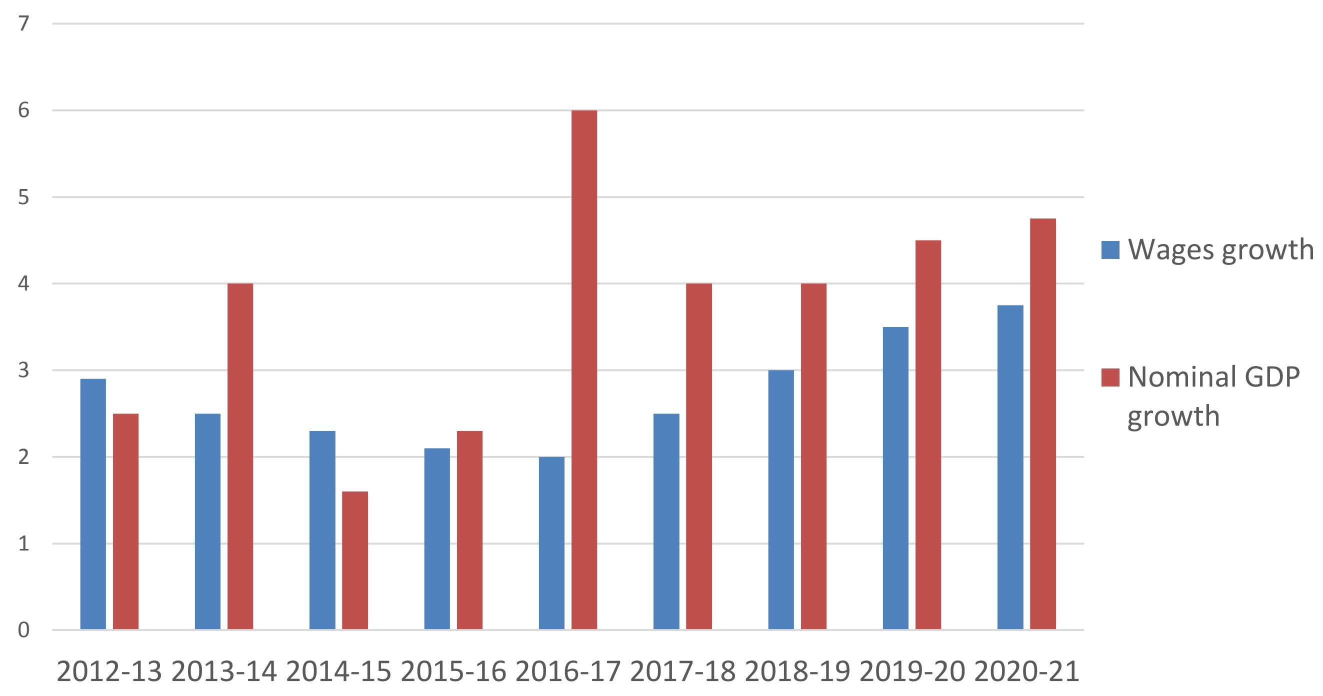
There has been a persistent gap between expenditure and revenue.



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

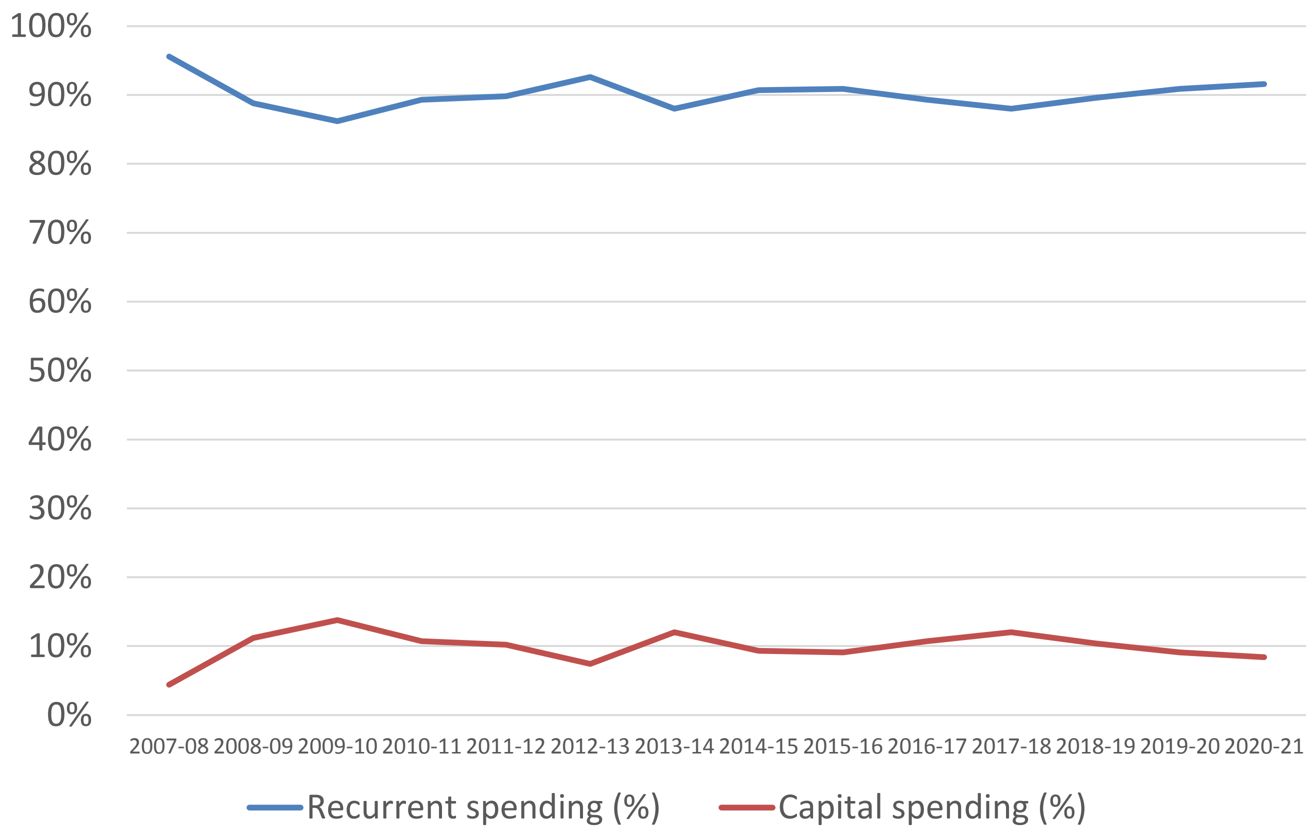
- “Good” debt is used to invest in capital that earn positive returns: e.g. infrastructure.
- “Bad” debt is used to pay for recurrent expenditure with little or no returns to government: e.g. social security.
- Taking capital spending into account implies a return to a new measure of budget surplus by 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

	Actuals								Estimates		Cumulated
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b	$b
Change in borrowing requirement	**45.7**	**46.0**	**44.2**	**42.7**	**23.4**	**62.1**	**49.3**	**51.7**	**80.6**	**38.9**	**484.5**
Allocation by portfolio											
Agriculture and Water Resources	0.4	0.3	0.3	0.2	0.1	0.3	0.3	0.3	0.5	0.2	**2.9**
Attorney-General's	0.5	0.5	0.6	0.4	0.2	0.6	0.5	0.5	0.8	0.4	**5.2**
Communications and the Arts	0.4	0.4	0.4	0.4	0.2	0.5	0.4	0.4	0.6	0.3	**4.0**
Defence	5.9	6.1	5.6	5.4	3.0	7.4	6.1	6.6	10.5	4.9	**61.3**
Education and Training	6.0	6.0	6.1	4.7	2.3	5.4	4.8	5.2	8.0	4.0	**52.4**
Employment	0.5	0.5	0.6	0.4	0.2	0.6	0.4	0.3	0.6	0.3	**4.4**
Environment	0.4	0.7	0.3	0.3	0.3	1.0	0.2	0.3	0.4	0.2	**4.0**
Finance	1.1	1.2	1.2	1.1	0.7	1.8	1.5	1.6	2.3	1.0	**13.5**
Foreign Affairs and Trade	0.9	0.8	1.0	0.9	0.5	1.2	1.0	0.9	1.6	0.6	**9.4**
Health and Aged Care	8.5	6.9	7.0	7.0	3.9	9.9	8.2	8.9	14.1	6.9	**81.3**
Immigration and Border Protection	0.4	0.5	0.5	0.5	0.4	1.0	0.7	0.7	1.1	0.4	**6.2**
Industry, Innovation and Science	0.8	0.8	0.8	1.8	1.3	1.5	0.6	0.5	0.7	0.4	**9.1**
Infrastructure and Regional Development	1.3	0.6	0.2	0.2	0.1	0.5	0.8	0.5	1.3	0.4	**5.9**
Parliament	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	**0.3**
Prime Minister and Cabinet	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.4	0.6	0.3	**2.4**
Social Services	13.0	11.3	11.3	11.7	6.5	19.4	16.7	17.6	26.2	13.1	**146.9**
Treasury	5.6	9.3	8.3	7.4	3.6	10.6	6.7	6.9	11.3	5.5	**75.2**

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

Topics Budget Government and Politics Federal Government Australia

FEATURES

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.