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The 2002-03 Commonwealth Budget

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Editor's Note

Welcome to the fourth issue of *Economic Issues*, a series published by the South ×îÐÂÌÇÐÄVlogn Centre for Economic Studies as part of the Centre's Corporate Membership Program. The scope of *Economic Issues* is intended to be broad, limited only to topical, applied economic issues of relevance to South ×îÐÂÌÇÐÄVlog and ×îÐÂÌÇÐÄVlog. Within this scope, the intention is to focus on key economic issues — public policy issues, economic trends, economic events — and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

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Jim Hancock
Editor
SA Centre for Economic Studies
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* Owen Covick would like to acknowledge useful comments from Jim Hancock on an earlier draft. The usual disclaimer applies regarding his comments.

The 2002-03 Commonwealth Budget

Overview

The Budget indicates that the stance of Commonwealth government fiscal policy has shifted away from the expansionary stimulus of the second term of the Howard-Costello government.

Much of the Budget-night commentary focussed on the confirmation-announcements and fiscal arithmetic associated with measures that the Coalition parties had committed themselves to during last year's election campaign.

If one focuses on "new" (i.e., non-election-commitment) measures announced in the five months up to and including Budget night, it is clear that these aggregate to a marked fiscal consolidation for the period 2003-04 and beyond — and to no further expansionism for 2002-03.

But even with the election commitment measures included, the various carry-forwarded effects from previous fiscal measures announcements (notably the expiration of limited duration expansionary measures) need to be included in the picture also. And overall, 2002-03 is set to see a substantial shift away from fiscal expansionism towards fiscal consolidation.

This shift towards fiscal consolidation is assessed as sensible and appropriate in Australia's current overall economic circumstances.

The partial embrace by the Commonwealth Government of an accruals accounting framework for the Budget Papers has contributed to a significant leap backwards in the transparency of the Budget.

This shift away from clarity and navigability has been compounded by the Treasurer's continued denial that the GST is a Commonwealth tax. On the basis of the information presented in the Budget Papers, it is not possible to judge whether the Commonwealth is meeting its stated objective of "no increase in the overall tax burden from 1996-97 levels".

It would seem to be more compatible with Budget Honesty if the Budget Papers commentary on the expected future balance sheet position of the Commonwealth government were to focus on the overall net worth figures and not on the "net debt" projections. There seems to be a good deal of confusion in the community regarding the effects of the proposed privatisation of the Commonwealth's remaining Telstra interest on the public finances. To appear to be suggesting that the net debt effect is the full story is misleading. It may also create false expectations about the size of the "bonanza" available to be frittered away on new spending initiatives — and thus undermine the 2002-03 Budget's fundamental imperative of fiscal consolidation.

1. The Stance of Fiscal Policy

Treasurer Peter Costello's seventh Commonwealth Budget, presented on 14 May 2002, confirmed that a significant shift in the stance of Commonwealth fiscal policy has been implemented since the end of 2001. The media headlines about the Budget tended to focus on the two areas of additional government expenditure commitments announced or confirmed on Budget night: namely those associated with providing the various "goodies" promised in the 2001 election campaign, plus those associated with the defence and border protection enhancement agenda. Apart from the pharmaceutical benefits scheme (PBS) cost-cutting measures, and the Disability Support Pensions (DSP) measures (announced to commence from 1 July 2003), there were not very many "hair-shirt" initiatives in Treasurer Costello's presentation. It was easy on Budget night to view the seventh Costello Budget as representing another serving of "more of the same" from a Treasurer whose previous four years conduct of fiscal policy had seen the lever shifted further and further towards the expansionary side of the fiscal stance settings.

A closer look at the Budget Papers shows that that would be a misinterpretation. Pages 8 and 9 of Budget Statement 1 provide the key details. Referring to the "expansionary fiscal policy settings in 2000-01 and 2001-02", it is reported that Commonwealth Treasury have estimated: "that there was a stimulus of around 1 per cent of GDP in those years" (Commonwealth of ×îÐÂÌÇÐÄVlog, *Budget Paper No. 1*, p. 1.8). It is then argued that "As the international economy returns to more normal long-term growth rates, it is appropriate to remove this stimulus. It is estimated that there will be a contraction of around ½ per cent of GDP in 2002-03 from fiscal policy" (*ibid*, p. 1.9). The Budget papers provide no follow-up detail on the macroeconomic modelling underlying those estimates of the *size* of those fiscal policy stance effects on ×îÐÂÌÇÐÄVlog's GDP. One would probably expect to find that no two separate macroeconomic modellers would actually agree on the precise figures. But the shift in the arithmetic sign from positive (or "expansionary") to negative (or "contractionary") does seem to be beyond doubt. Figures in Table 1.1 show *why* this is so.

The first row of Table 1.1 reports the GDP growth-rate figures for the ×îÐÂÌÇÐÄVlogn economy which lie at the heart of the various Treasury calculations reported in the Budget Papers. The 2001-02 number is partly an "actual" figure, partly a preliminary estimate. The 2002-03 figure is what Treasury are happy to call a "forecast". The entries for the three "out-years" are what Treasury prefer to call "projections". But whether "forecasts" or "projections" these are the GDP growth figures which, together with other economic parameters and the details of the various government spending programmes and of taxation arrangements, generate the Budget Paper figures for expected Commonwealth receipts and expected Commonwealth outlays. Row two of Table 1.1 reports the real growth in Budget receipts as projected by Commonwealth Treasury, row four, the real growth in Budget payments. The third row of the table

shows the extent to which Budget receipts growth is expected by Treasury to fall short of GDP growth. The fifth row shows the extent to which Budget payments growth is expected to exceed GDP growth. The final row in the Table is the sum of rows three and five.

Table 1.1
Indicators of Stance of Commonwealth Fiscal Policy

	2001-02	2002-03	2003-04	2004-05	2005-06
(1) Real GDP growth (%)	3.75	3.75	3.50	3.50	3.50
(2) real receipts growth	0.30	2.90	2.60	2.80	2.60
(3) Row one minus Row two	3.45	0.85	0.90	0.70	0.90
(4) Real payments growth	4.70	0.90	1.80	2.30	1.40
(5) Row four minus Row one	0.95	-2.85	-1.70	-1.20	-2.10
(6) Rows three plus five	4.40	-2.00	-0.80	-0.50	-1.20

Source: Commonwealth of ×îÐÂÌÇÐÄVlog, *Budget Strategy and Outlook*, pages 1.6 and 13.3.

In a year when GDP growth was exactly at its average rate across the macroeconomic cycle, and ignoring complexities associated with composition effects, leads and lags etc., the type of figure reported at the bottom row of Table 1.1 would represent a "rough-and-ready" indicator of the stance of Commonwealth fiscal policy — with zero indicating fiscal neutrality, positive numbers an expansionary stance, negative a restrictionary stance. Commonwealth Treasury do not provide anywhere in the Budget Papers their estimate of the GDP growth figure which they view as being, at the current time, the average rate across the macroeconomic cycle in ×îÐÂÌÇÐÄVlog. But page 1.9 of Budget Paper No. 1 suggests they view that figure as being a *little* below 3.5 per cent.[1] In a year when GDP growth is above its average across the macroeconomic cycle, a neutral stance of fiscal policy would see the Budget bottom line moving further into (or towards) the black, as the better-than-average growth boosted taxation revenues and/or dampened down spending on income-support related outlays programmes.

As far as the bottom line of Table 1.1 is concerned, this suggests that Commonwealth Treasury's projection is that on the basis of the current fiscal policy settings, and now-announced plans for alterations to those settings, the stance of Commonwealth fiscal policy will be neutral-to-very-mildly-contractionary in 2003-04 and 2004-05, but *distinctly* contractionary in 2002-03 after being distinctly expansionary in 2001-02. The traction driving those contractionary outcomes is to be found on the outlays side of the Budget rather than the revenues side. Indeed the revenue-side figures are on the expansionary side of neutral throughout the whole of the Budget projections period (i.e., the row three figures in Table 1.1 are all positive).

This might seem peculiar. With GST revenues excluded from the Commonwealth revenue figures on the argument that the GST is a "States and Territories" tax (an issue discussed in section 3 below) the predominant source of Commonwealth Budget receipts is the taxation of income (73 per cent in 2001-02 compared with 18 per cent for indirect taxes and 9 per cent for dividends and other non-tax receipts). With some elements of income taxation proportional (company tax, and the 15 per cent superannuation fund contributions and earnings tax) and others such as the personal rate-scale progressive, it might seem surprising that the future years' entries in row three of Table 1.1 are not negative. There are two main explanations for this. The first is that the Budget forward estimates take into account the future effects of fiscal decisions already announced which will work to hold down income tax revenues as a proportion of GDP in future years (e.g., the "baby-bonus", the superannuation surcharge's staged reduction etc.). The second is the peculiar case of petroleum products excise indexation.

Of these two, the latter is the more interesting. If we look at Commonwealth revenues from the taxation of income through the forward estimates years, we find that these are still expected to rise as a proportion of GDP, the superannuation surcharge and the *taxation expenditures* measures notwithstanding. By 2005-06 total income taxation revenues are expected by Commonwealth Treasury to be 17.3 per cent of GDP compared with the present 17.0 per cent.[2] So the positive figures (or fiscal expansionary effects) in row three of Table 1.1 are coming from the quarter of Commonwealth Budget receipts that does *not* represent taxes on income. The forward estimates figures are based on the assumption that Telstra will have been completely privatised by June 2006, with the cash proceeds coming in during the three financial years 2003-04 to 2005-06 (see p. 8 of Budget Statement 12). If Treasury were not so confident that the government will successfully divest itself of its remaining shares in Telstra during the forward estimates years, Budget revenue from dividends would be projected to be greater than is the case. If the Commonwealth had not announced the abolition of the indexation of fuel excise in March 2001, Budget revenues from that source would be projected to be greater than is the case. As it is hard to see the Commonwealth simply sitting back and watching the effective real rates of excise on fuel products erode from year to year, a modest element of the positive future year figures in row three of Table 1.1 should probably be discounted as illusory. A more realistic assumption is that revenue raising effort in this area will be greater than the "no policy change" convention underlying the forward estimates would suggest. This serves as reinforcement to the proposition that we have seen in the months since the 2001 federal election a significant shift in the stance of fiscal policy, away from the expansionism previously prevailing.

Table 1.2 reproduces the Reconciliation table published in Commonwealth Budget Statement No. 2. In a "normal" year, one's main focus in assessing a

Budget's implications for the stance of fiscal policy would be on the figures in the bottom half of this table.

Table 1.2
Reconciliation of 2001-02 Budget, 2001-02 MYEFO and 2002-03 Budget Fiscal Balance Estimates[(a)]

	2001-02 $m	2002-03 $m	2003-04 $m	2004-05 $m
2001-02 Budget fiscal balance	**-834**	**-1,546**	**2,697**	**6,935**
Per cent of GDP	-0.1	-0.2	0.3	0.8
Changes between 2001-02 Budget & MYEFO				
Effect of policy decisions[(b)(c)]				
Revenue	-56	-67	-319	-275
Expenses	1,112	52	46	23
Net capital investment	506	-748	-160	-171
Net effect of policy decisions	-1,674	630	-205	-127
Effect of parameter and other variations				
Revenue	1,923	1,421	468	-113
Expenses	2,605	1,734	2,320	2,994
Net capital investment	-118	61	28	30
Net effect of parameter and other variations	-565	-374	-1,881	-3,137
2001-02 MYEFO fiscal balance	**-3,073**	**-1,290**	**612**	**3,670**
Per cent of GDP	-0.4	-0.2	0.1	0.4
Changes between MYEFO and 2002-03 Budget				
Effect of policy decisions[(b)]				
Revenue	0	511	819	729
Expenses	470	1,042	1,551	1,499
Net capital investment	184	186	81	103
Net effect of policy decisions	-653	-717	-813	-873
Effect of parameter and other variations				
Revenue	2,455	2,878	3,037	3,392
Expenses	1,694	550	543	1,415
Net capital investment	79	140	-317	-263
Net effect of parameter and other variations	682	2,187	2,812	2,240
2002-03 Budget fiscal balance	**-3,045**	**180**	**2,611**	**5,037**
Per cent of GDP	-0.4	0.0	0.3	0.6

(a) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

(b) Excluding the public debt net interest effect of policy measures.

(c) Includes policy decisions taken up to the issuing of the writs for the federal election on 8 October.

Source: Commonwealth of ×îÐÂÌÇÐÂÌÇ *Budget Strategy and Outlook 2002-03* (Budget Paper No. 1), P. 2.4.

Normally the MYEFO[3] fiscal balance row in the middle of Table 1.2 indicates the projected Commonwealth budget bottom position on the basis of policies officially announced up to about Christmas time. In comparing those figures with the Budget Paper figures at the bottom of Table 1.2, we separate out the components associated with factors *other* than Commonwealth policy-initiative announcements (termed "effect of parameter and other variations") and what we are left with is the bottom-line consequences of the spending and taxing initiatives announced between Christmas-time and Budget-night, with the "norm" being that we thus have a handle on how the stance of Commonwealth government fiscal policy has shifted over five months up-to-and-including Budget night.

But this year, the interpretation of the Reconciliation table requires more care. The publication of the MYEFO was "brought forward" in consequence of the calling of the November 2001 federal election. And the various spending and taxing commitments announced by the Coalition leadership after the election writs had been issued were (quite reasonably and appropriately) *not* regarded as "government" commitments by Commonwealth Treasury when calculating the MYEFO figures (see footnote (c) to Table 2). But once the Coalition leadership were confirmed in government following the counting of the polls, it would seem reasonable to regard those election commitments as having the status of announced government policy, *and* as having that status from well before the date at which the MYEFO is normally published.

A pale-blue-covered booklet was issued as part of the set of Commonwealth Budget Papers on May 14 giving a separate account of the figuring associated with the government's honouring the Coalition leadership's election-period commitments. It estimates the net overall impact on the Commonwealth's Budgetary bottom line is $713.4 million in 2002-03; $873.6 million in 2003-04; $1185.5 million in 2004-05; $1,436.6 million in 2005-06 — with all these figures being in the direction of a decrease in the fiscal balance.[4] A comparison of these figures with those in the "net effect of policy decisions" row three-quarters of the way down Table 2 indicates the aggregate budgetary impact of government policy decisions actually announced since the "normal" MYEFO time. Clearly these 2002 decisions have been (in net terms) in the direction of *increasing* the fiscal balance for 2003-04 and 2004-05. The figure for 2002-03 is not markedly changed.

It is at this point that the true essence of the 2002-03 Commonwealth Budget's macroeconomic policy content should be apparent, and the stunning virtuoso performance of Treasurer Costello and his advisors in delivering that content admired. Paul Keating used to attract admiration for "pulling a rabbit out of a hat" in his Budgets. On 14 May 2002 Peter Costello pulled a very large rabbit out of apparently nowhere, and didn't even boast about it. We have a major shift in the stance of fiscal policy confirmed (see Table 1.1) — "the rabbit". We have no "hat" in sight — in terms of major painful spending cut announcements or taxation increases — to explain where it came from (see Table 1.2). There can only be one explanation of this apparent paradox: Treasurer Costello must have succeeded in building slow-burning fiscal-balance-enhancing measures into his previous more explicitly expansionary Budgets and/or succeeded in having the expansionary elements of those Budgets time-limited and attenuating. Most commentators seem to have thought Peter Costello had worked to leave the Budgetary cupboard *bare* at the time of the 2001 election. Now it seems he had carefully set in place mechanisms for its *automatic* self-stocking.

2. Budget Honesty and Transparency

Ideally, a commitment by the custodians of our public finances to "Budget Honesty" would go hand-in-hand with a commitment to "Budget Transparency" in the sense of making the Budget Papers as easily-understandable and easily-navigable as possible. Regrettably this has not been the case with the Commonwealth Budget Papers, where the shift to accruals accounting seems to have contributed to a massive leap backwards in transparency and navigability. And these effects have been compounded by the treatments accorded to GST revenues and Telstra privatisation proceeds in the core parts of the Budget Papers.

The very first sentence of Budget Paper No. 1 stresses the pre-accruals version of the Budget bottom-line as the key concept of interest. The same applies in the popular 28 page "glossy" *2002-03 Budget Overview* distributed by the Government. Treasurer Costello's Budget Speech makes no mention of any bottom-line concept *other* than the pre-accruals "underlying cash balance". But virtually every piece of figuring in the Budget Papers regarding individual programmes, or of various grouped areas of spending, and all the Budget Speech figures on policy initiatives are on a basis that is *not* compatible with that pre-accruals bottom-line concept. The key Reconciliation table, which we have reproduced above, is all presented on the accruals basis. The Budget Paper figures for real growth in receipts and payments which we have reproduced in Table 1.1 are the (underlying) cash concept figures from Budget Statement 13. Year-by-year real growth figures for the two sides of the Budget through to 2005-06 are nowhere to be found on the accruals basis. But try to decompose the totals and you have little choice but to fall back into the accruals concept for the component parts. In short, it is a mess.

If the Treasurer and his closest advisers genuinely believe that the old "underlying cash balance" concept is the best measure of the budget bottom line, surely Budget-honesty and Budget-transparency require that the information explaining how we get to that bottom line be also presented on the same conceptual basis? Alternatively, if the Treasurer and his closest advisers genuinely believe that the accruals-based figures embody greater Budget honesty and greater Budget transparency, surely the bottom-line generated by that figuring should get some airing in the Budget Speech, even if the "old-fashioned" concept gets a mention as a "kindness" to the "arithmetically challenged"?

The present writer has a certain amount of sympathy for the proposition that the focus should be on the "underlying cash balance". The various accounting "fiddles" for window-dressing that concept are generally more widely understood and usually much easier to "correct for" than their equivalents under the accruals conventions. And to the extent that we are interested in the financing requirement of the Commonwealth, in the sense of its *direct* need to find new buyers for its paper (or not), this is the relevant concept. Provided we are kept aware of the Government's overall balance sheet situation (and developments in its net worth position) in an easily accessible part of the overall financial statements, there may not be much gained by having all of the reported year-by-year flow detail presented on an accruals basis. In a sense it's rather like driving on the left versus driving on the right. Either you accept the hassles and re-education problems associated with full-scale conversion, or you don't. Trying to go for half and half is likely to be a recipe for chaos. For the only users of Budget Papers who can easily navigate and understand them to be senior Commonwealth public servants and Ministerial advisers might be convenient to the Treasurer and Prime Minister, but it is hardly consistent with their rhetoric about the Charter of Budget Honesty Act and the improvements it has brought compared with the "bad old days" before the 1996 federal election.

Turning to the proposed privatisation of the Commonwealth's remaining shareholding in Telstra, the main honesty/transparency issue regarding the Budget Papers figuring lies in the balance sheet information presented, and commentary thereon, rather than in the year-by-year fiscal balance or "budget surplus" figures. Both the old "underlying cash balance" measure and the accruals-based fiscal balance measure exclude the proceeds of major asset sales from contaminating the bottom-line in the year(s) of sale. Forward estimates under either methodology should show roughly the same post-privatisation story of less Budget revenue from dividends and less Budget expenses on debt-servicing.

For the Treasurer's speech-writers, desirous of painting a rosy picture of the impact of full Telstra privatisation upon the nation's public finances, it is natural to focus on the debt-servicing side of the flow figures, and on the net debt line in the Commonwealth balance sheet. If an entity sells an asset for proceeds which *exactly match* the present value of maintaining that asset in its existing ownership for the foreseeable future, the act of sale would have no effect on the vendor entity's true net worth. There would simply be a rearrangement of the balance sheet, showing that the *composition* of the various assets and liabilities making up the entity's net worth had shifted — perhaps significantly. This does *not* mean that every privatisation has a zero impact on the vendor government's net worth (or must have a negative impact after adjusting for costs of sale). Only those who have never studied economics, and therefore labour under the misapprehension that "there is no such thing as a free lunch" could believe that.

The key question is whether the "asset" that is the subject of the privatisation can be expected by its potential new owners to operate with lower costs relative to its earnings under their ownership than if it stayed government owned — and hence whether its present value to its potential new owners is greater than its present value calculated on a continued-government-ownership basis. If there *is* such a "present-value-gap", and if it exists because of factors that are *not* simply the results of the new owners expecting more fully to

exploit
monopoly/monopsony
powers or

to receive special subsidies or tax-breaks, there is clearly a "free lunch" available. And it then becomes a purpose of the privatisation process to hammer out how the benefits of that free lunch are to be split between the vendor government, assorted interest groups and the successful new owners, and how much of that "free lunch" will be wasted in the process — e.g., on rural infrastructure projects for which costs outweigh any plausible estimates of benefits. Provided the gains do not go wholly to the new owners and the costs of the privatisation process itself,[5] the net worth of the vendor government is increased by the privatisation event.

For a person to believe that any and every privatisation, past or future, *must* be a zero-sum game (or worse) requires a very extreme form of closed mind — just as much as for a person to believe that any and every privatisation *must* always be a win-win situation for both the new owners and the vendor government's elector/stakeholders.

Every day in our community there are persons who find they have inherited a building or a small business from someone who put a great deal of effort into building up that asset. Whether it makes financial sense for the inheritor to maintain ownership of the asset requires a calculation of the present value of the stream of net benefits expected to flow from such continued ownership, and an assessment of how that seems to compare with what potential new owners are prepared to pay (based on *their* estimates of the present value of the stream of net benefits expected to flow from the asset under *their* management of it). Only if we all had exactly the same skills and exactly the same tastes (including that for tolerating risk) would every asset-sale within the private sector be simply a zero sum event in net worth terms. It seems strange that a recognition of this has not better-pervaded the great debate over privatisation in ×îÐÂÌÇÐÄVlog.

A summary version of the Commonwealth general government sector balance sheet for 2000-01 through to 2005-06 is presented at page 9 of Budget Statement number two, with the commentary firmly focussed on the net debt figures. More detail is provided in Appendix B to Budget Statement number two which shows the asset category that includes the Commonwealth's Telstra shares declining from $51.6 billion in 2002-03 to $14.4 billion in 2005-06. The Budget Papers are silent on how the Telstra shares are valued in the pre-sale balance sheets and on whether this differs from the valuation implicit in the proceeds expected from the divestment. Some reticence on the detail is no doubt completely sensible in the context of the expected haggling during the divestment negotiation process. But a commitment to Budget Honesty might reasonably be expected to lead to greater transparency of the overall Budget Paper figuring on this important matter, *and* to some greater prominence for a *caveat* that is tucked away on page 6 of the little-read Budget Statement No. 10:

> "... a limitation of the net debt measure is that the sale of physical assets decreases net debt ... Net worth recognises that the increase in financial assets has been funded by a decrease in physical assets".

Since net worth is a conceptually less "limited" indicator, why is there so much emphasis on the net debt measure in the principal Budget Papers' commentary on the Commonwealth balance sheet? For the record, while Commonwealth net debt is projected to shrink from over $30 billion currently to *minus* $18.9 billion in June 2006, Commonwealth net worth is projected to improve by a more modest $10 billion between June 2002 and June 2006.

3. GST Revenues

In law the GST is a Commonwealth tax. It exists because legislation was passed by the Commonwealth Parliament. Any changes to the rate or to the base which were to be passed by the Commonwealth Parliament (and proclaimed by the Governor-General of the Commonwealth) would take effect whether the Parliaments of the States and Territories liked that or not. For the GST to have been introduced across ×îÐÂÌÇÐÄVlog as a States and Territories tax would have required *either* a change to the ×îÐÂÌÇÐÄVlogn Constitution regarding the excise power, or a major shift in the High Court's interpretation of the Constitution in that regard. In the run-up to the introduction of the GST, there was no referendum to provide for a change in the Constitution. There was no attempt to introduce the tax as a States/Territories tax and see whether the High Court might be willing to go against past precedents and "allow" it. The question then arises: is it compatible with Budget Honesty for the Commonwealth Government to publish Budget Papers which *pretend* that none of the above is true?

The ×îÐÂÌÇÐÄVlogn Bureau of Statistics has taken the view that the GST is a Commonwealth tax as far as its Government Financial Statistics (GFS) framework is concerned. As the *Charter of Budget Honesty Act 1998* requires the Commonwealth Budget to be based on external reporting standards and that any departures from such standards be identified, this means the Budget Papers are required to give some explanation for the departure from GFS standards regarding the GST. That explanation reads:

> "The clear policy intent of the *Intergovernmental Agreement on Commonwealth-State Financial Arrangements* is that GST is collected by the Commonwealth, as an agent for the States and Territories, and appropriated to the States. As such, it is not shown as Commonwealth revenue in other statements in this document" (page 11.3 of Budget Paper No. 1).

The "intent" described here would seem to be an intent to do something which the ×îÐÂÌÇÐÄVlogn Constitution, as currently interpreted by the High Court, does not allow. The present writer has never studied law and has no credentials to comment on a legal matter — but he is surprised that an intention to do something that is *not* "legal" is used to justify the presentation of accounting statements on a basis that simply ignores the existence of the "inconvenient" laws. Moreover, for the Commonwealth to represent itself as a mere "agent" is less than truthful. As an agent the Commonwealth would accept the States' instructions on GST matters, whereas in fact the Commonwealth has made explicit policy statements of its own, including that the GST rate will not be changed from 10 per cent under the current Commonwealth Government.

As the principal financial information concerning GST revenue and its distribution is presented in Budget Paper No. 3 (*Federal Financial Relations 2002-03*), it might seem churlish to complain about its absence from the main Budget Statements in Budget Paper No. 1. But that absence does have consequences. It compounds the difficulties caused by the (partial) embrace of accruals accounting when trying to compare figures for 2001-02 and future periods in Budget Paper No. 1, with Commonwealth Budget Papers data for 1998-99 and earlier. In particular it makes for difficulties in assessing how well the Commonwealth government is performing in terms of its fiscal strategy objective of "no increase in the overall tax burden from 1996-97 levels".[6]

Table 3.1
Commonwealth Taxation as % of GDP

	Budget Papers	With GST included
1986-87	24.4	n.a.
1987-88	24.2	n.a.
1988-89	23.7	n.a.
1989-90	23.6	n.a.
1990-91	23.3	n.a.
1991-92	21.5	n.a.
1992-93	20.9	n.a.
1993-94	20.9	n.a.
1994-95	22.3	n.a.
1995-96	23.0	n.a.
1996-97	23.5	n.a.
1997-98	23.3	n.a.
1998-99	23.9	n.a.
1999-2000	23.9	n.a.
2000-01	21.7	-
2001-02	21.0	24.9
2002-03	21.0	24.9
2003-04	21.0	24.9
2004-05	21.0	24.9
2005-06	20.8	24.7

Notes: Column one is on the cash receipts basis, and taken from p. 13.4. Column two adjusts for GST using the data from p. 11.7, which do not include a figure for 2000-01.
Source: Commonwealth of ×îÐÂÌÇÐÂÖ *Budget Strategy and Outlook 2002-03*.

Table 3.1 presents in column one the Commonwealth taxation revenues to GDP figures reported in this year's Commonwealth Budget Papers. The starting point of 1986-87 has been selected because that represents the peak for the post-1970 period as reported in the Historical data section of Budget Paper No. 1. When the figures for 2001-02 onwards are converted to the ABS definition of Commonwealth Taxation Revenue the results are as reported in column two. To say that these figures "prove" the Commonwealth tax burden has gone beyond its 1986-87 peak and is projected to stay there would be unfair — as the GST replaced some State taxes as well as the Commonwealth wholesale sales tax and some Commonwealth excise collections. But without some further information about how much of the GST revenue can reasonably be viewed as having replaced precursor Commonwealth taxes one cannot simply read column one as "proving" that the Commonwealth tax burden is below its 1996-97 level and projected to stay there. Budget Honesty would seem to require more of an explanation from Mr Costello about how the current and projected "overall" Commonwealth tax burden compares with the past, rather than simple denial that the GST has anything to do with that question?

4. Concluding Comments

Framing a modern Commonwealth Budget is a mammoth task. What the Commonwealth collects in taxation revenue accounts for somewhere between a fifth and a quarter of ×îÐÂÌÇÐÄVlog's GDP (see Table 3.1). The various programmes to which that money is dedicated run into the hundreds, with many of the individual programmes being exceedingly complex (and usually needfully so) in themselves. The annual task of reviewing the whole matrix, designing possible improvements, and weighing the scales of pros versus cons case-by-case issue-by-issue is exhausting to the principal participants. It can also be exhausting attempting to read through and comprehend the outcomes of the process in the Budget Papers. Budget night and post-Budget-day morning usually see the media bombarding the public with facts and commentary about the vast number of individual "measures" announced in the Budget.

The purpose of this SACES Economic Issues Paper has *not* been to attempt to go through a "call" of the measures-field all over again. Rather the purpose has been, now that there has been time for the dust to settle and the hubbub to subside, to try to focus on what sort of a canvas *as-a-whole* has been produced by the myriad of individual brush-strokes.

The principal conclusion that has been drawn concerns the stance of Commonwealth government fiscal policy embodied in the 2002-03 Budget. This first Budget of the third term of the Howard-Costello government signals a shift away from the progressively more expansionary fiscal policy that prevailed through the three Budgets of the second term. After a fiscally very "tough" first Budget in 1996, and a maintenance of that stance in his second Budget, Treasurer Costello took his foot away from the fiscal brake-pedal and applied it to the accelerator. Now, that has stopped and the foot is being pressed firmly on the fiscal brakes. This time though, the process has been more subtle than in 1996.

Is this shift in the stance of Commonwealth fiscal policy sensible? The answer is almost certainly yes. The Commonwealth government seemed to *drift* into an increasingly expansionary stance of fiscal policy throughout its second term, largely as a by-product of bedding down "A New Tax System" (ANTS). When ANTS was first announced it embodied sufficient sweeteners to render the total package fiscally expansionary. When ("basic") food was removed from the GST base to secure the necessary Senate majority, the accompanying package of measures did not recoup the full revenue cost, so ANTS became even more expansionary. Those who regarded the introduction of a value-added tax as vital to ×îÐÂÌÇÐÄVlog's economic future were probably happy to accept what they perceived as a less-than-ideal shift in the stance of overall fiscal policy as a price worth paying. The same people may have regarded the subsequent frittering away of the remainder of the Commonwealth's Budget surplus position as a necessary price for ensuring that the 2001 federal election did not bring about a "roll-back" of ANTS. Perhaps fortuitously for ×îÐÂÌÇÐÄVlogns the world macro economy during 2001 followed a path that provided ex post justification for the Commonwealth's shift into fiscal expansionism. But now that ×îÐÂÌÇÐÄVlog's GST is part of the furniture, and with the next major recession still not showing on the radar screen, the dictates of a prudent medium term fiscal strategy point definitely in the direction away from further fiscal expansionism.

Economic growth under free enterprise capitalism is *cyclical* growth. Simply because we have not experienced a major recession since the economic recovery of 1993 does *not* mean the macroeconomic cycle has been vanquished. If the Commonwealth government is to be in a position to take the appropriate fiscal response when the next major recession does strike us, it must have acted to stock up the fiscal pantry during the years of plenty. The May 14th Commonwealth Budget suggests that Mr Costello has now persuaded his federal Cabinet colleagues to this way of thinking. When Paul Keating presented his seventh federal Budget, it was 1989. The forward estimates did not envisage the onset of a severe recession "just around the corner".

End Notes

[1] This inference is based on the statement that in the Budget out years, with GDP growth projected at 3.5 per cent p.a., "The output gap ... will close only slowly" (*loc. cit.*).

[2] At p. 5.32 of Budget Paper No. 1, it is stated that "Measured tax expenditures are projected to decline as a proportion of GDP [from 4.0 per cent in 2002-03] ... to around 3.8 per cent in 2005-06".

[3] Acronym for the *Mid Year Economic and Fiscal Outlook* statement, issued by the Commonwealth Treasury each year.

[4] See p. 20 of Commonwealth of ×îÐÂÌÇÐÄVlog *Putting ×îÐÂÌÇÐÄVlog's Interests First – Honouring Our Commitments*, Statement by the Honourable Peter Costello, MP, Treasurer of the Commonwealth of ×îÐÂÌÇÐÄVlog, 14 May 2002.

[5] The *costs of the privatisation process* should include the present value of any government spending streams (or special tax breaks) committed to by the vendor government as an integral part of getting the privatisation into effect.

[6] See page 7 of Budget Statement No. 1, which sets out the Government's "medium term objectives of fiscal policy".