

# Budget 2017: Should we believe the budget speech? They are usually very wrong

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When the Treasurer delivers his second budget tomorrow night, no doubt the lexicon of future "good debt" and "bad debt" will get more airtime again amid raucous banter around the chamber.

This is not unusual: budgets are mostly presentations of what the government expects of its fiscal performance over the future financial year – including the invariably quoted four year forward estimates. This then drives stories about "winners and losers". Yet little attention is given to the actual financial performance of the previous year.

The size of any budget imbalance is significant. Unfortunately for Australia, since the Howard years ended a decade ago we have experienced serious fiscal mismanagement, moving from no debt to a situation of significant and persistent budget deficits.

From the 2015-16 Treasury's figures, Australia now has an accumulated gross debt of around \$495 billion – or \$285 billion net debt – and a debt burden that is showing no signs of being reversed.

Since the Howard years, governments on both sides of the political fence have not been prepared to make the necessary and significant structural changes to their budgets. They have not had the political courage to cut outlays.

Contrary to government assertions, Australia has a serious spending problem, not an earnings (or revenue) crisis. We now face very real threats to our national fiscal stability, including a possible downgrade in our AAA credit rating – Australia is only one of nine countries to enjoy the very highest credit rating. A downgrade would translate into higher costs in servicing existing and future debt, and further still, unfairly and recklessly expecting future generations to pay for profligate consumption decisions made by the current generation.

This means the federal budget process, particularly over the past decade, has been seriously compromised. But this has been exacerbated in two critical areas: accountability and unreliable forecasts.

First is the issue of accountability. While it is right to understand what the government wants to achieve in the coming year (i.e. a promise), very little attention, even in the media, is focused on what the government actually achieved in the past financial year (i.e. was the promise met). This is not good governance. Government needs to be held appropriately accountable for what was actually delivered.

For example, if ASX-listed company CEOs fronted up at the AGM but only focused on their earnings forecasts for 12 months into the future, shareholders would vehemently protest. This is because what really matters is the stewardship of shareholders' assets, and how those funds were invested in providing an actual and appropriate return on equity capital. Corporations – and executive management – are judged on their actual financial results. This is not the case in a government budget context.

We need to demand that government also provide a focus on what the fiscal experience was from the last financial year, not just what is forecast. The MYEFO process mid-year is still not sufficient for this cause. It is imperative that our governments be held to account in the actual – not just projected – financial management of the country's resources.

To illustrate this problem, I have used Commonwealth Treasury data comparing the last 10 years of actual budget outcomes with what each of the Treasurers announced on budget night the year before. For the last 10 years, the average size of Treasurer over-optimism – i.e. what was promised and under-delivered – was an astonishing \$11.9 billion per year.

The cumulative size of the optimism was some \$119 billion. In other words, projections of what was expected to eventuate were sizably wrong, and in the wrong direction. In only three of the fiscal years – 2006-07, 2007-08 and 2009-10 – was the Treasurer on the correct side (i.e. exceeded their promise) on the budget outcome. And the largest forecast error of the last 10 years was a \$48 billion event in 2008-09, where the budget was forecast for a \$21 billion surplus, yet the GFC saw a \$27 billion deficit.

Second, and as evidenced above, the Commonwealth Treasury has been rightly criticised for their persistent unreliability in forecasts for revenue and expenditure. Yes, forecasting can be a challenging process, and relies on many important assumptions. The Treasury do run scenario analyses, which is an important thing to be done. But if the budget process is merely to announce projected fiscal outcomes that eventually have no real bearing on actual reality, then is the budget speech something we should really believe in? It would be better for the Treasurer to explain the highlights of the past financial year, and what was actually delivered, and what, if any, lessons have been learned for the future.

The very nature of the budget speech is a political blueprint of the nation's fiscal future. But what Australia's citizens really need is confidence in the process, that the forecasts can be relied on to be reasonably accurate, and that what governments say they will do is indeed what they actually do.

The budget process adopted by governments in the last 10 years has been spectacularly disappointing in fiscal terms. One only hopes that tomorrow evening is the beginning of a restoration in our confidence in how the nation's resources are being prudently managed by good and worthy stewards, our elected public servants.

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