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OPINION

Don’t believe what lightweights tell you about Josh Frydenberg’s spending spree

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If you’ve gained the impression that in their pre-election budget Scott Morrison and Josh Frydenberg have gone on a wild, vote-buying cash splash spending spree, leaving us – not to mention our grandchildren – with a string of bigger budget deficits and much increased government debt, you’ve been misled.

Some of it’s simply not true, much of it’s exaggerated and the rest has been misunderstood by people who didn’t do economics at high school. They’re people who are led by their emotions and, when they hear frightening words like “deficit” and “debt”, don’t need to be told we’re all in deep doodoo. They don’t stop to read the details.

An educated understanding of debt and deficit puts Treasurer Josh Frydenberg's budget into perspective.
ALEX ELLINGHAUSEN

Let me give you some of those details, with help from the independent economist Saul Eslake and his first-rate budget analysis.

What would you think if you asked me my salary and I gave you a figure I'd first multiplied by four? You'd think I was big-noting. The politicians do this every budget time to make them sound more generous than they are.

They can do it because the budget shows the cost for the coming financial year, plus "forward estimates" for the following three years. The media go along with it because it quadruples their story's impressiveness.

They told us the budget involved new spending and tax breaks costing $93 billion "over four years", when it would have been less misleading to say the new measures will cost the budget about $23 billion a year.

Some have implied the new measures are profligate and motivated by vote-buying. Some measures are, no doubt. But the $3.8 billion a year to fix up our scandal-ridden aged care system? The $2.2 billion a year in increased support for the unemployed? The extra $2 billion a year in infrastructure? The $1.3 billion a year to subsidise apprenticeships? Another $1.3 billion in total to help hard-hit aviation and tourism? An extra $450 million a year on women's economic security?

The extended tax relief for small business will cost a total of $21 billion in a few years' time, but then will be clawed back. The "new" tax cut for middle-income earners costing $7.8 billion a year Frydenberg told us about is just a one-year extension of last year's tax cut.

Doesn't sound much of a splash to me. The increased subsidy of childcare costs doesn't start for a year and is about a quarter of what Labor's promised.

Next, if you've gained the impression all this spending will increase the budget deficit and add to the government's debt, you've been misled.

At the time of last year's delayed budget in October, Eslake points out, the net debt was expected to reach $966 billion by June 2024. In this budget the debt's now expected to be $46 billion *less* by then.

How is this possible? It's possible because the economy has recovered much more strongly than was expected even in October. So tax collections are a lot higher than expected, and dole payments a lot lower.

By design, the government's new spending takes up most, but not all, of this improvement. The econocrats wouldn't have thought it smart to withdraw too much of the public sector's support for the private sector – households and businesses – before the recovery was well established and when unemployment was still so high.

The joke is, the people up in arms about the huge growth in debt are a year late. It was last April when all the damage was done. The pandemic was raging and governments decided to put our heath first and the economy second. They locked down the economy, causing the biggest collapse in the nation's income since World War II.

But to hold the economy together so it could rebound after the lockdown was lifted, the government spent unprecedented sums on the JobKeeper scheme (that's $90 billion right there), the JobSeeker supplement and a dozen other temporary programs.

It's all worked far better than expected, but there's no denying it's come at a great cost. Should we have let all those people die of the virus? Should we have let the economy stay flat on its back? The debt panickers weren't saying that a year ago.

The finances of national governments don't work the way a family's do. Eventually, parents die. They know they must have their debts paid off before then.

But though the faces change, governments and the populations they serve never die, they just keep growing. Meaning they – like big businesses – never pay off their debt. It goes down sometimes and up others, but still goes on forever.

What governments do is out-grow their debts, so it shrinks *relative* to the size of the economy and all the income it generates. That's how the developed countries got on top of the massive debt they were left with after WWII.

They didn't pay it back, they outgrew it. And the good news is, interest rates on the public debt are now lower than ever – and won't be going back up in a hurry.

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