Turnbull's boomer budget is an intergenerational disgrace.

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Overestimating and under-delivering, the PM and his Treasurer have turned heir backs on the next generation, writes Ian McAuley.

Politically, it's designed so as not to scare the horses – neither the general public who will be going to the polls, nor the far right of the Coalition. But what has emerged is a budget that confirms the public view that Malcolm Turnbull is out of touch with ordinary people – the people who don't have a rental property, who don't have an income above $80,000, and who don't own a profitable small business.

Its main message is about what it fails to do. It does not strengthen our revenue base, it does nothing significant to deal with climate change (neither our own contribution to global warming nor our capacity to cope with its consequences), and it has left in place most of the taxation rorts favouring the well-off.

To the government's credit it has put a cap on superannuation contributions: $1.6 million should be enough to finance a comfortable income in retirement. But to continue the equine metaphor, that's shutting the stable door after some of the best-liveried horses have bolted. The income and drawings from superannuation accounts in pension phase remain tax-free, which means a $1.6 million super account paying a modest 4 per cent return would be earning $64,000 tax-free, while a PAYG taxpayer with that earning would pay almost $13,000 in tax.

In terms of intergenerational equity it's disgraceful. The baby boomers, who in 1968 were chanting "hell no, we don't want to go to war" are now chanting "hell no, we won't pay" – for dealing with climate change, for making housing more affordable, and for giving their grandchildren a decent education.

In macro terms it's a budget framed by a government that believes the economy is travelling reasonably well. Perhaps they really do believe the economy is in good shape, or perhaps they don't want to admit, after vilifying the Rudd-Gillard Government, that the Coalition has not done a very good job on its own watch. In the Government's words:

The Australian economy is expected to grow at 2.5 per cent in both 2015-16 and 2016-17 before strengthening to 3.0 per cent growth in 2017-18 as the detraction from falling mining investment eases.

That's certainly a lower rate of growth than the 3.2 per cent average we have experienced over the last 30 years, but even this more modest target may not be achievable, because the government's assumptions about growth are on the optimistic side, and there is little acknowledgement of significant risks facing our economy.

In fact, the budget is vague about the drivers of that expected growth.

Net government spending certainly isn't one of the drivers. As with other recent budgets, Coalition and Labor, it charts a rapid reduction in the cash deficit, from 3.1 per cent of GDP this year to 1.9 per cent of GDP next year, and shrinking further in out years. That's a $19 billion reduction in the coming year.

It forecasts that consumer spending will pick up, rising faster than wages, which basically means people would be taking on more debt, and the budget forecasts a falling household saving rate. But there must be some limit to our private indebtedness: our household debt-to-income ratio has trebled over the last 30 years, and now stands at 186 per cent. We can't live on the never-never for ever.

Then there are the business tax cuts, aimed mainly at small business. But businesses don't invest just because taxes have been cut. Rather, businesses invest because they see opportunities for sales, and if the recent behaviour of big business is anything to go by, the opportunities aren't there. In the profit reporting season just past, our public companies have paid out a huge 70 per cent of their profits as dividends (after their senior executives have helped themselves with generous payments). It's harder to get firm figures on small business, but it's a reasonable bet that they will behave in the same way. Look out for more sales of BMWs and luxury boats, financed by funds laundered through family trusts.

Certainly the Reserve Bank is none too optimistic about the economy, otherwise it wouldn't have reduced interest rates by a further 0.25 per cent on budget day. Some may suggest that's a natural reaction to deflation, but the March quarter negative CPI came about through once-off factors, particularly gasoline prices. The Reserve Bank's decision looks more like a desperate move to breathe some life into a faltering economy. They're trying to do with monetary policy what the Government isn't doing with fiscal policy, even though it's become clear in Australia and around the world that monetary policy isn't working.

That leads to a consideration of risks. The cut in interest rates, combined with the Government's failure to do anything about negative gearing and capital gains tax rorts will, add to pressure on housing prices. Some day the housing bubble will burst, and the longer we go on inflating the bubble, the worse will be the damage.

The other significant risk is in the Chinese economy. The budget optimistically forecasts Chinese GDP to grow at 6 per cent or more for the next few years, but it would be an extraordinary irony if the Chinese Communist Party has fashioned a form of capitalism that's immune from the business cycle. Also, in relation to China, the budget is based on an iron ore price of $US 55 a tonne. Many analysts believe that the recent, sharp rise in the iron ore price to $US 60 may be no more than a short-term phenomenon to do with the stock cycle.

And while the budget has the usual section titled "statement of risks", which includes a perennial reference to natural disaster risk, it mentions nothing about the heightened risks to our economy associated with severe weather events and environmental damage resulting from climate change, or the risk that if Australia continues to be a free-riding laggard in reducing emissions, we may face trade sanctions and countervailing duties on coal and other carbon-intensive products.

As Ben Eltham has written, the budget "comprehensively fails to establish a convincing economic narrative" and does nothing to invest in our future prosperity.