The Coalition's Hypocrite Economics

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Shouldn't Tony Abbott be happy that the mining tax was a fizzer? Doesn't he want to abolish it? The Coalition and its supporters in the Murdoch press need to start telling the truth about economics, writes Ian McAuley.

To read the Murdoch media's account of Australia's budgetary position one would believe that the Gillard Government's economic management is in chaos, and that we rank just behind Greece and Spain in terms of fiscal profligacy.

Much political mileage has been made out of last week's release of the Commonwealth's financial statements for the period to December 2012, which show a $22.3 billion cash deficit for the half year, in contrast to the May Budget which had forecast a cash surplus of $1.5 billion for the full year.

Before we join the panic, let's put these numbers in context.

First, the larger-than-expected deficit is not the result of profligacy. The Commonwealth's spending over the six months to December was $187.3 billion, exactly half its estimated $375.0 million for the full year. The shortfall is on the revenue side, specifically a fall in tax revenue.

Second, the revenue fall results from large once-off factors, including a large negative flow of tax refunds — almost certainly associated with excess collection of provisional tax relating to 2011-12. Another was a slump in mineral prices in the first half of the fiscal year. As a result the Government's Mineral Resource Rent Tax (MRRT), which should have raised $1 billion by December, raised only $126 million.

There has been a subsequent recovery in iron ore prices, and in the current company reporting season there are some strong results coming in, particularly from the finance sector, which should see a rise in capital gains and company taxation. The second half of this year could see a significant improvement in tax revenue, particularly on an accrual basis, because some of the cash receipts will be in the 2013-14 year.

Third, even if the budget deficit were to come in at $5 or $10 billion, this is hardly serious. The Commonwealth's net debt of $164 billion is only 11.1 per cent of GDP — very low by the standards of other countries. Another $10 billion of debt as a result of an unexpected budget deficit would increase it to $174 billion, but if nominal GDP grows at a modest 5 per cent (corresponding to a real growth of about 2 per cent) it would remain at 11.1 per cent of GDP.

In short, there is no budgetary crisis. The government's policy of stabilising debt before allowing it to contract remains in place.

There is a political problem, however, and it is partly of the government's making. It confidently talked about a fiscal "surplus", as if that were the sole measure of economic policy, and did not couch its rhetoric with some acknowledgement of conditionality. When politicians tout precise figures, particularly when those figures are based on the slim difference between two uncertain quantities, they leave themselves open to "gotcha" questioning by partisan journalists and ridicule by their political opponents.

The political noise around the government's embarrassment in missing its "surplus" target and its poor design of the MRRT is masking two important economic issues: serious deficits that don't show up in the Commonwealth's accounts and our seeming inability to capture an adequate return from the resource boom.

Our fiscal deficits are minor in comparison with our deficits in public assets. Whether we are talking about the shabby public transport systems of Sydney, Melbourne, Brisbane and Adelaide, the dangerous goat tracks that are known as the Bruce, Pacific, Dukes and Midland Highways, or the interstate rail system running on century-old alignments, we are talking about transport deficits.

Many of our environmental resources, ranging from old mine sites through to our national water supplies, need remedial investment — investment which would provide an economy-wide return but no immediate financial return for a private investor. Similarly, if we are to renew our electricity systems to take advantage of our natural resources of renewable energy (which are remote from our coal mines) we need public investment.

We have low public debt, but this has been achieved at the cost of a depleted stock of public assets. If Australia were a public company, its board would be condemned for having let its balance sheet run down.

By a quirk of accounting, however, if the Commonwealth does spend on roads, public transport or other assets, these have to be expensed on the Commonwealth's books, because most capital payments are passed through to the states. The Commonwealth budget deficit widens and its balance sheet looks worse, while the states' balance sheets improve. It shouldn't matter, because nationally the transactions cancel out, but it matters politically because the Federal Opposition and the Murdoch media have made such an issue of the Commonwealth cash deficit.

The world's successful economies are those which have used public debt wisely to invest in public assets — countries such as Germany and Singapore, with net public debt around 80 per cent of GDP, and the Nordic countries with public debt around 40 to 50 per cent of GDP, all countries with excellent public assets. Rather than becoming obsessed with the details of the government's cash flows, we should be discussing the nation's public balance sheet.

The opposition has floated some thought bubbles about infrastructure, but has given no indication of funding (its expenditure cuts wouldn't go far), and its priorities are on a 1950s "develop the north" agenda — an agenda which may please Gina Rinehart and Clive Palmer, but which wouldn't do much for those Australians who live south of the Tropic of Capricorn. For them the only infrastructure promise is that it would kill the National Broadband Network.

The other issue concerns the government's MRRT. Its original design was sound by several economic criteria, but it was poorly put together. New Matilda readers who wish to compare the original proposal with the anaemic deal negotiated by the Commonwealth can read my analysis in Dissent (warning — equations).

Both the Rudd and Gillard governments had an opportunity to present themselves as standing firmly against the voices of greed, and they could have made the opposition appear as economic traitors, but they buckled on the MRRT, and have been paying the political price since. The electorate rightly reacts with disgust when they see their government, elected to defend the public interest, give in to bullying. That disgust is most strongly directed against Labor governments, for there is a belief that while the Liberal Party is the natural ally of big business, Labor has a broader constituency.

We now have the absurd situation, however, where most criticism of the MRRT is directed at the Government, ignoring the policy position of the opposition, re-asserted on Friday in Abbott's speech to the Committee for Economic Development in which he rightly criticised the MRRT for raising "hardly any revenue at all" but then repeated his intention to kill it. You can read his speech at the Liberal Party website (warning — hypocrisy), but for an interpretive analysis, drawing attention to its inaccuracies and contradictions, see the Macrobusiness website.

The impression generated by the focus on the Government's poor design is that the opposition must have something better, but it has no plans to invest the benefits of mining revenue in the national interest. Those who focus criticism on the Government are inadvertently playing into the hands of the Opposition and the mining industry, who wish to see the tax abolished, but today's Fairfax/Nielsen poll shows that 60 per cent of voters want the tax retained or strengthened.

Is it possible that the opposition and media obsession about accounting details is a way of distracting us from real economic issues — the state of our public assets and our fleeting opportunity to invest the proceeds of the mining boom? Or is it just that journalists in the mainstream media are too lazy to address difficult issues?