Pain to last years, says Treasury Department

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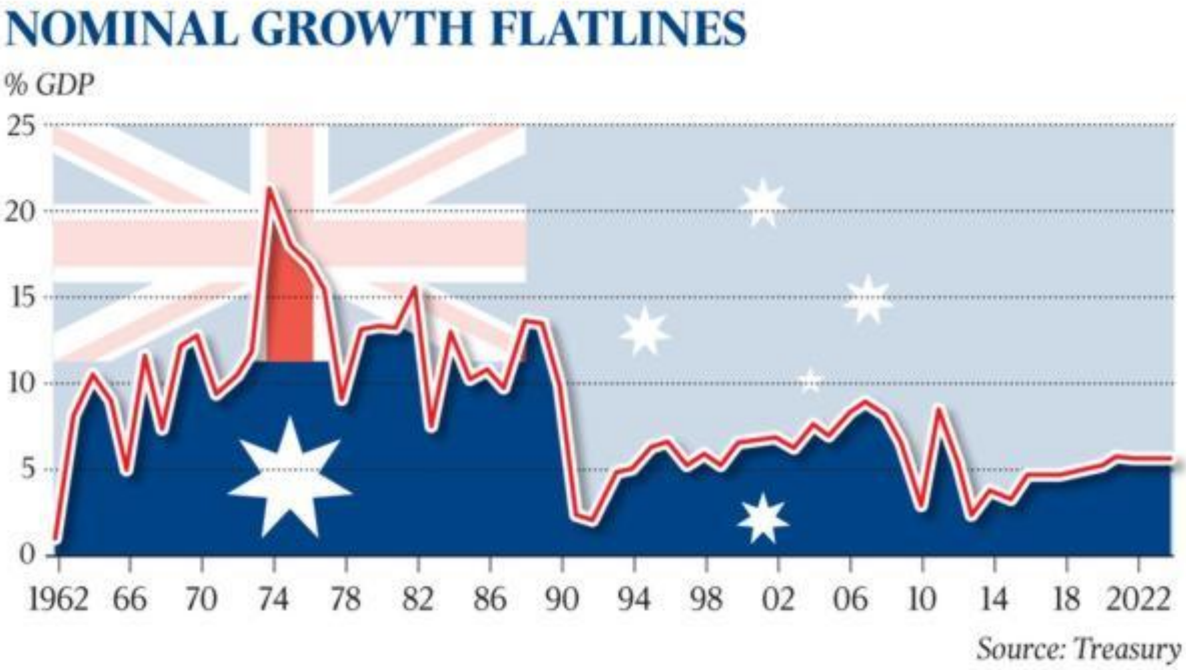

TREASURY is expecting the most sustained period of weak growth in Australia for at least 50 years, with the economy forecast still to be feeling the pain of falling commodity prices and weak income growth in 2020.

Treasury's outlook is considerably more pessimistic than those of private forecasters, who suggest the economy could be $70 billion bigger than Treasury expects within three years.

Tony Abbott will underline the scope of the savings tonight, warning that everyone will be called on to contribute to the herculean fiscal-repair task.

“This budget is about shifting our focus from entitlement to enterprise; from welfare to work; from hand-out to hand-up; from our own short-term anxieties to our nation’s long-term opportunities,’’ the Prime Minister will tell a Sydney Institute dinner.

Mr Abbott would not be drawn yesterday on reports that the government was considering a temporary deficit levy, modelled on the one-off flood levy, to raise revenue. Such a move would leave the government open to Labor attacks that it had breached its commitments on introducing new taxes.

The Prime Minister will say tonight that the aim of the budget will be “to maximise everyone’s ability to contribute to a better Australia’’, laying the ground for further participation measures to encourage older Australians, people with disabilities and mothers with young children into work.

“I know that the tendency on budget night is to focus on ‘what’s happening to me’ but we need to focus on ‘what’s happening to us’, because everyone needs to be involved in fixing Labor’s debt mess if all of us are to prosper in the years ahead,’’ extracts from Mr Abbott’s speech, released last night, say. “This will not be a budget for the rich or the poor; it will be a budget for the country.’’

Treasury estimates of nominal GDP, or the value of goods and services produced in the economy, show it will grow by only 3.7 per cent this year and 3.4 per cent in 2014-15, little more than half its 20-year average growth of 6.3 per cent.

Nominal GDP, which is the crucial figure for both household incomes and the government’s tax collections, is expected to average only 4.7 per cent out to June 2018, before rising to 5.6 per cent by June 2021.

The full national accounts published since 1961 show there has never been a period with more than three years of growth less than 5 per cent, while estimates going back to World War II also show no similar period of extended slow growth.

Deloitte Access Economics partner Chris Richardson said he expected nominal growth to return to normal by 2016, with better performance this year and next than what Treasury had forecast.

“We have the economy in 2013-14 $14bn bigger (than Treasury projections), rising to $35bn bigger next year and reaching $70bn bigger by 2017-18,” he said.

“Treasury went from being more optimistic on the nominal economy over the next handful of years than we are to more pessimistic, and it shows up on their budget figuring as well.”

The Treasury projections were provided to the Commission of Audit and revealed in an attachment to a speech by Joe Hockey last week. Although they will be updated in the budget, they are unlikely to show significant difference. The Treasurer said last week that there had not been any improvement in the outlook since the midyear budget outlook issued before Christmas.

The Commission of Audit’s report will be released on Thursday. With several of its most contentious spending cuts expected to be rejected by the government, the return to budget surplus is likely to be assisted by some tax increases.

The government is considering imposing a “deficit levy” similar to the Gillard government’s flood levy, according to a report in The Sunday Telegraph yesterday.

Mr Abbott said he would not comment on individual proposals, saying simply: “We will tackle the fiscal disaster that we have inherited. Now we are going to do it in ways which are faithful to the commitments that we made to the Australian people, but we are not going to squib the challenge.”

Labor Treasury spokesman Chris Bowen dubbed any levy to repair the budget a “deceit tax’’.

“Now, Tony Abbott went to the last election with clear commitments to the Australian people which he is breaching and this will be the biggest breach of all,’’ Mr Bowen said.

“If you are introducing a new tax on to Australian families, then it’s a breach of Tony Abbott’s promise of no new taxes. If Tony Abbott wants to allege that a levy or a tax on Australian families is not a new tax, I would like to see him do that.’’

Deloitte Access Economics partner Chris Richardson said yesterday that a levy of 0.5 percentage points on the top three tax brackets would raise about $2bn a year.

“It is a bitter pill for this government to be talking tax, but the willingness is a good sign,” Mr Richardson said.

He added it was not practical to put all the burden of budget repair on to the spending side.

“Most of the budget repair must happen around spending, but it was always silly to leave tax off the table,” he said.

Australian Industry Group chief executive Innes Willox said it would be a serious mistake to try to close the budget gap by imposing higher taxes.

“Raising taxes would dampen private sector demand at a time when the economy is growing at below trend and the labour market is flat at best,” Mr Willox said.

“Raising income tax rates inflicts a heavy ‘excess burden’ on the working of the economy and is likely to do more harm than good. You can’t tax your way to prosperity.”

Mr Richardson said that $2bn raised by the levy could add to $6bn in spending cuts, improving the budget position by $8bn in the coming year. This would still leave a large deficit for 2014-15 in excess of $20bn.

As debate about the deficit tax swirled, Clive Palmer ruled out support from the Palmer United Party for lifting the pension age to 70, as proposed by the government.

“I just couldn’t employ Joe Hockey or Tony Abbott at 69, no matter how competent they are,” Mr Palmer told the ABC yesterday.