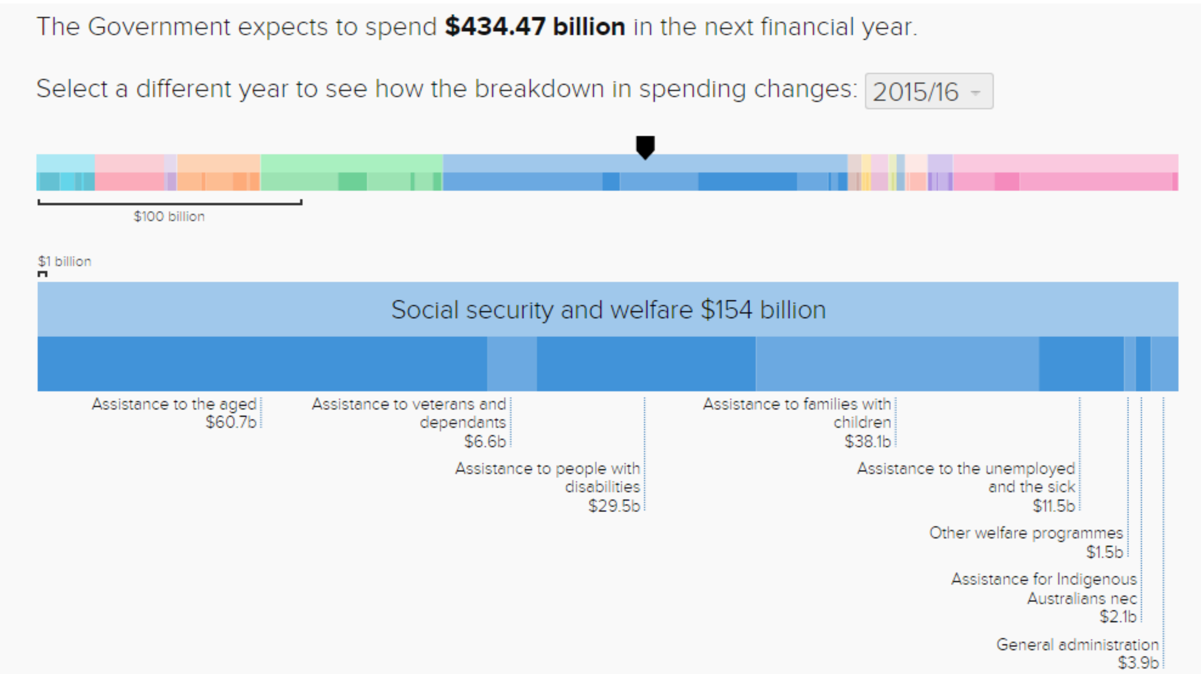
The Budget – why it's beside the point

In the days after the Budget, many people asked me for my in-depth opinion. Surely, as the CEO at a free-market think tank, I would have within hours of its release been armed with reams of statistics and graphs, breathlessly announcing relative winners and losers and ready to pronounce a verdict?

On the contrary, I don't buy into the "budget sport" that provides the daily fix of contrived controversy for the media and lucrative paydays for economic commentators wheeled out to utter their sage advice. This Budget, like most, tinkers; it delivers a tax cut and increased depreciation allowance for small business, while "investing" more in pharmaceutical and childcare subsidies (the Orwellian language of Budgets calls spending "investment" and tax increases are now "savings".)

This Budget, as with the prior six of the Rudd-Gillard government and arguably the latter Howard-Costello Budgets, does not tackle the elephant in the room: that tax and expenditure is too high. Government spending in 2015 is forecast to be roughly 27% of GDP. One of the richest countries in the world, we will nonetheless spend over $150 billion or 35% of the Budget on direct welfare, with at least another $115 billion to be spent on other subsidies and direct transfers in areas such as health, education and housing. The infographic from the ABC's website below illustrates how the traditional view of welfare as being dominated by "dole bludgers" is wrong; the welfare spend is dominated by assistance to the aged, family payments and disability spending. Australia is a country addicted to welfare – of 11 million taxpayers, only roughly 5 million pay tax net of welfare benefits. These 5 million are shouldering an increasingly unsustainable burden.



Let's put our redistributionist economy into perspective: 40 years ago, the Chinese people were starving in the "iron rice bowl" economy. Within a couple of generations, China has become the world's greatest saver, with foreign exchange reserves alone equal to about USD 4 trillion. This has enabled it to embark on a vast program of investment both at home and abroad. China's economy has deep structural problems that will cause it great difficulties in the years ahead. But China's ability to build a pool of domestic savings should shame Australia, a perpetual capital importer. It is time to focus on retaining more wealth in the hands of those who create it so that it may be put to better purposes than redistribution and consumption.