

Making sense of the Victorian Budget



FREE EVENT

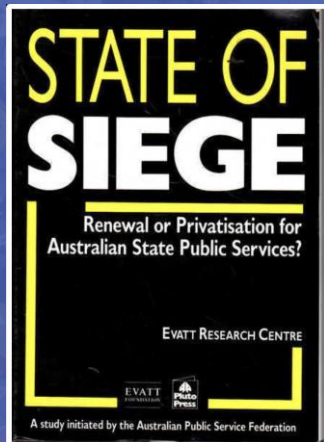
1. Understanding the budget papers

2. Your budget paper questions

3. What to expect on budget day

4. Your budget day questions

The 2020/21 State budget: one to remember?



Emeritus Professor David Hayward
Future Social Service Institute
RMIT University



Outline

- The budget: what is it and how to analyse it?
- A theme: saving the state through a Big Build
- Victorian Labor and social policy: from good to great?
- Conclusion: a budget to remember



The budget: what is it?

- Core bit of Parliamentary system
- Appropriation bills authorize spending from government's bank account
- But it is also about politics and theatre
 - Must
 - Get good press ("responsible and fair")
 - Make a difference



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The budget: what is it? cont



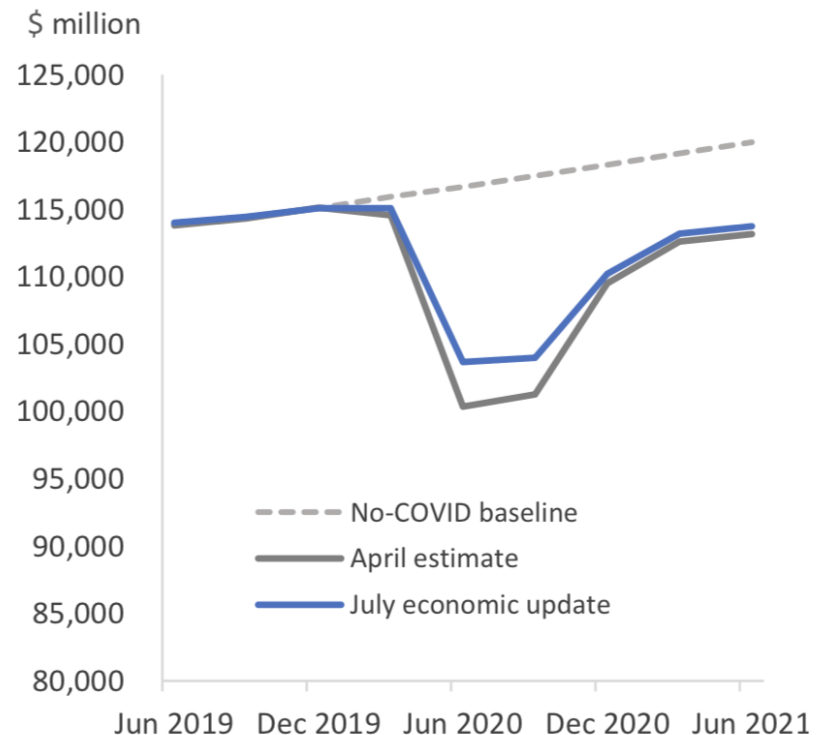
- Thousands of pages
- 4 (main) volumes
- About spending, funding & financing
- Don't go with what you are told (forget Paper Number 1)
- Think of context...



The economics...

- * The coronavirus recession
 - * Biggest economic contraction since the 1930s
 - * Caused by: government regulations (Lockdowns) AND people self-regulating, to stop the spread of the virus
 - * Enabling economy to (hopefully) recover
 - * Victorians slapped twice

Chart 1: Estimated gross state product, Victoria



Source: Department of Treasury and Finance, Victoria



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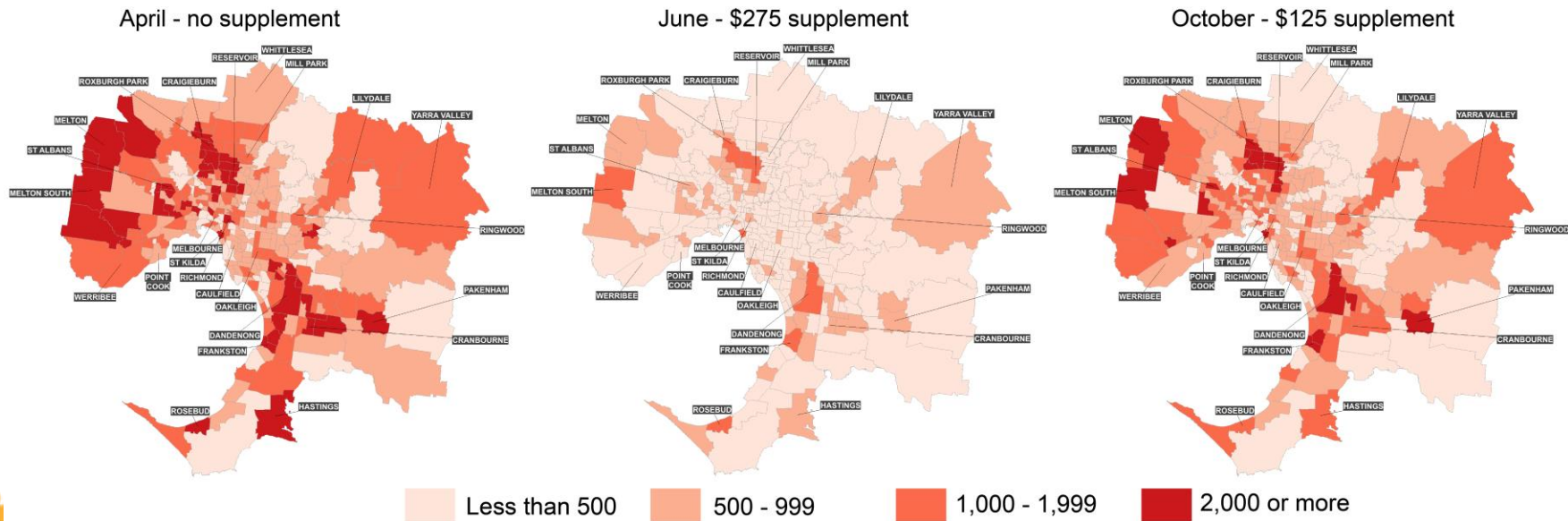
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Economics cont.

- * An important note:
 - * Most households were well-supported
 - * Federal government:
 - * JobKeeper
 - * JobSeeker
 - * State government
 - * unprecedented cash support for those not on Centrelink and/or marginalised jobs
 - * Services for homeless etc
 - * Closure of EGMs
- * But they couldn't spend big because of the Lockdown
- * We went through a "depression" but without all that pain
- * A great policy success
- * That is about to end...



A poverty fairytale?...



The politics...

- A budget to end the Coronavirus recession just as other stimulus ends
 - Debt is good
 - Big spending is good
 - The good times are here after Lockdown!



And just a little bit of luck!



5:15 pm Mon 16 Nov smh.com.au 35%

States urged to spend another \$40b in Reserve Bank call on jobs

By David Crowe
August 21, 2020 – 3:16pm



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Australia's two biggest states appear ready to lift their spending on infrastructure after Reserve Bank governor Philip Lowe asked premiers to commit another \$40 billion to major projects in a two-year spending surge.

NSW Premier Gladys Berejiklian said she was "always looking to do more" on construction and Victorian Treasurer Tim Pallas said he was considering "what else we can bring forward" to add to the existing pipeline of road, rail and other projects.



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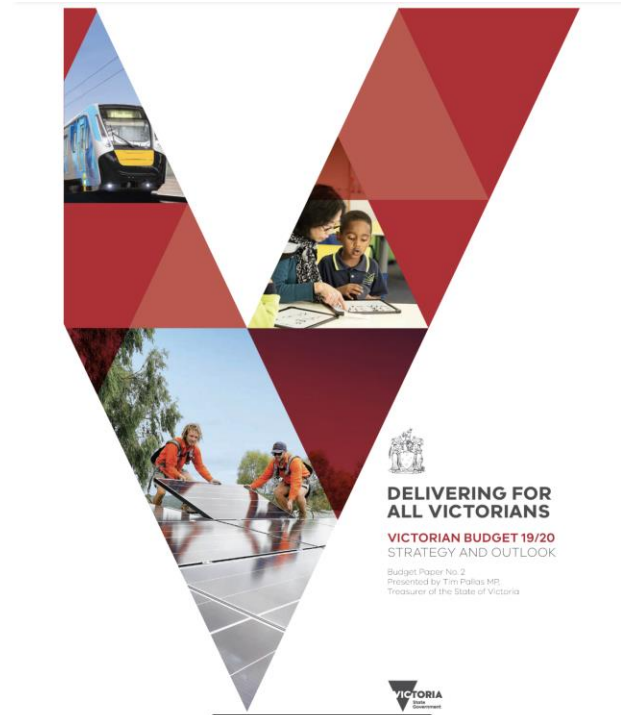


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The budget: what is it cont.

Don't forget: must put two sides together to see who benefits and who pays

- Where to start?
- Budget Paper Number 2: Budget Strategy and Outlook
- Is spending increasing
 - Not just "new initiatives"
 - After "efficiencies"
 - Per year, not in total
 - After inflation and population growth
 - Must look at payments as a whole
 - And how much is durable (versus one-off)
- What about revenues?
 - Are they up or down (note there will be a big fall this year and only a little growth next)
 - Which sources?
 - Must look at total receipts and not just taxes
 - After inflation and population growth



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The budget cont.

Budget aggregates, 2019/20-2020/21

- What about the surplus?
 - Last November, expected to be \$600m
 - There will be operating *deficits* for the next four years, maybe longer
 - And once capital spending is taken into account, *deficits* for as far as eye can see

Taking into account these new business and community support initiatives, along with the pandemic's impact on the State's revenues, the general government sector operating result in 2019-20 is expected to be a deficit of around \$7.5 billion

Source: DTF, Economic Update, July , 2020

	Financial Year	
	2020	2021
Net result (\$m)		
Budget	\$1,050	\$1,453
Budget update	\$618	\$1,222
Revised	-\$7,500	-\$10,778
Slippage		
Cf budget	-\$8,550	-\$12,231
Update	-\$8,118	-\$12,000
GG net debt (\$b)		
Budget	\$39,000	\$46,900
Budget update	\$40,348	\$49,272
Revised	\$47,938	\$60,092
% of GSP	10.2%	12.1%
Slippage		
Cf budget	\$8,938	\$13,192
Cf update	\$7,590	\$10,820



BTW: a global ideological shift – Big Government is back in fashion!



Bill Mitchell

A NEW YORK TIMES BESTSELLER
the
**DEFICIT
MYTH**

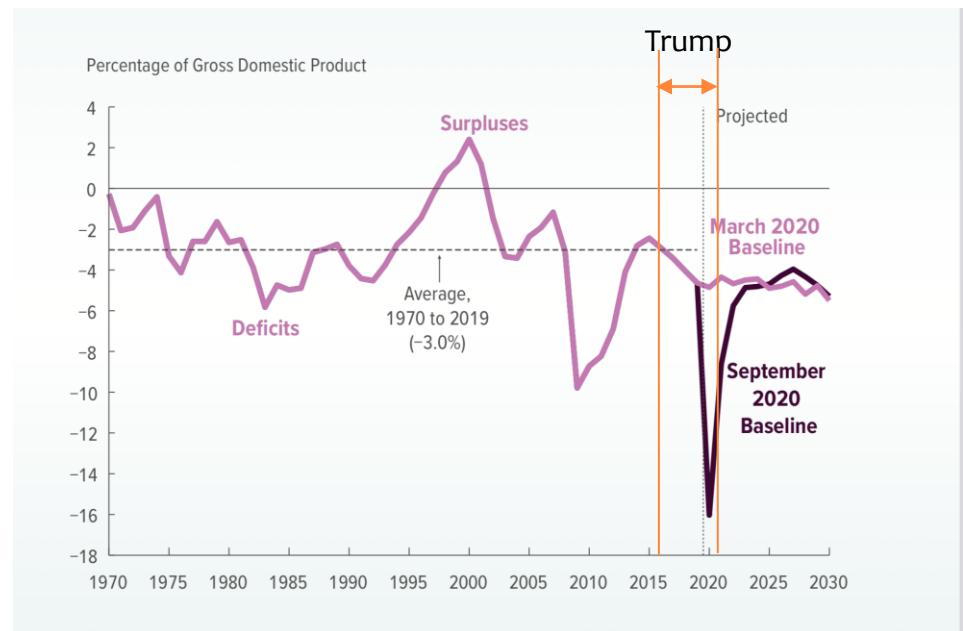


*Modern Monetary Theory
and the Birth of the People's Economy*

**STEPHANIE
KELTON**



US Federal budget deficit (% of GDP), 1970-2030



Source: US Congressional Budget Office



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The budget: what is it? cont

- Budget Paper No 3: Service Delivery

- Detailed data by Department, including new initiatives and “output statements” by program
- Useful for the detail
- Shows new initiatives
- Must deduct “savings” (\$140m in 2013/14)

- Budget Paper No 4: State Capital Program

- Useful for details of new infrastructure spending

- Budget Paper No. 5: Statement of Finances

- Taxes, Commonwealth Grants, debt

Spend most of your time here.

*Remember:
Commonwealth grants = c50% of total revenues!*



Budget: what is it cont?

Some tricks to watch for:

1 *Self publicity*: “the biggest ever...”

- need to adjust for population growth (2.5%), inflation (2%)
- Good idea also to compare to nominal growth in economy (3% real economic growth plus inflation 2% = 5%)

2. *Somewhere over the rainbow*

- using sum of 4 year projections to impress

3. *Sandbagging*

- making things look worse to keep a lid on spending expectations

4. *Magic puddings*

- Privatisations as a “free lunch”



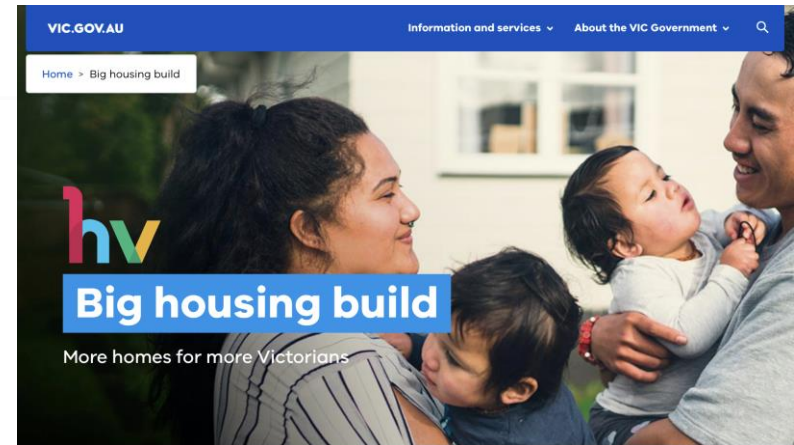
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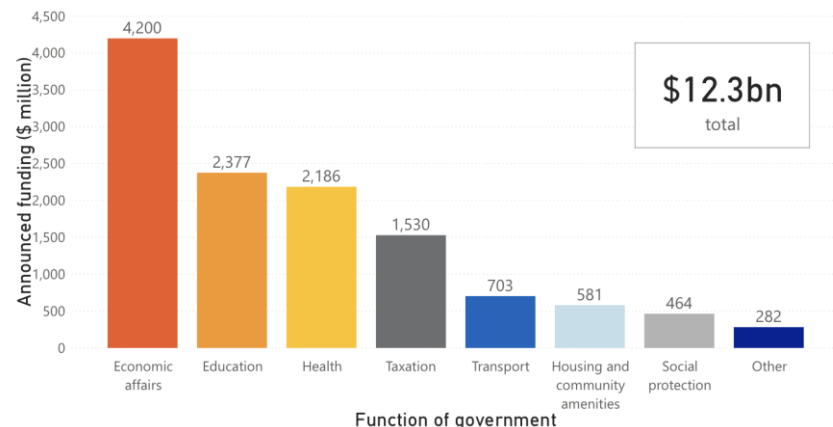
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A likely theme: Saving the State through a Big Build

- * There will be a lot of spending!
- * Housing (\$5b over 4 years)
- * Suburban rail loop (\$2.2b), but not till next year
- * \$880m for mental health
- * Then there are all those COVID-19 promises made this year:



Announced funding by function of government

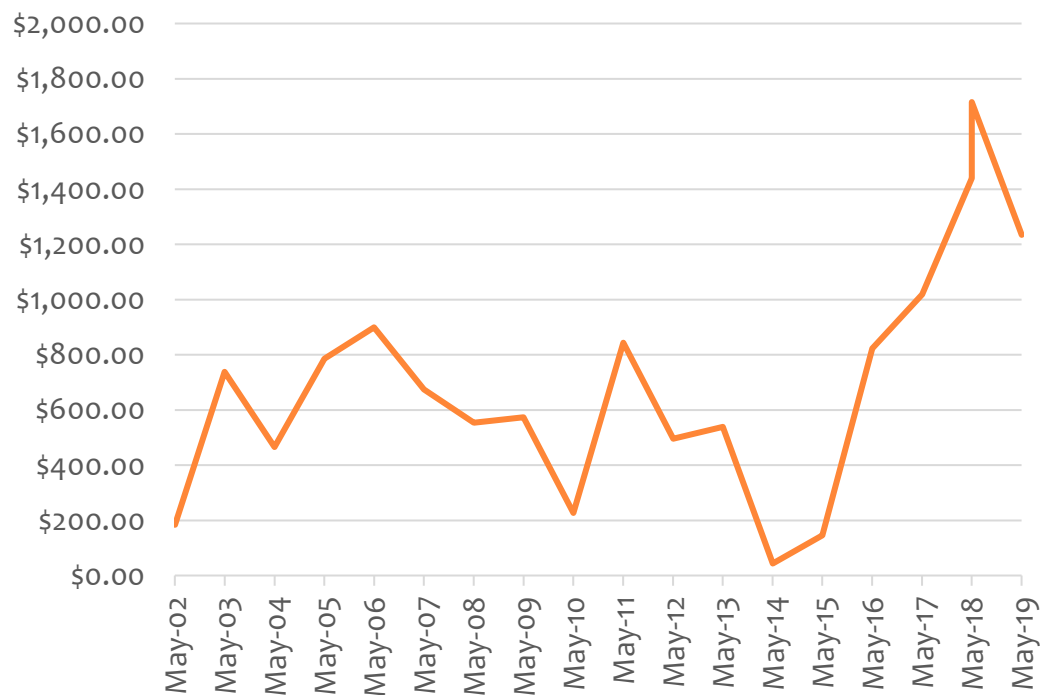


Source: Victorian Parliamentary Budget Office

The Andrews Labor government: from good to great for Victorian social policy?

- * This will be a genuinely great budget for Victorian social policy
- * It would be difficult to find another budget in Victorian history as generous as this
- * And that's on the back of a darn good track record already
- * My ready reckoner is net new budget initiatives

Real net new output initiatives (\$m), 2001/2-2019/20, (2019 prices)

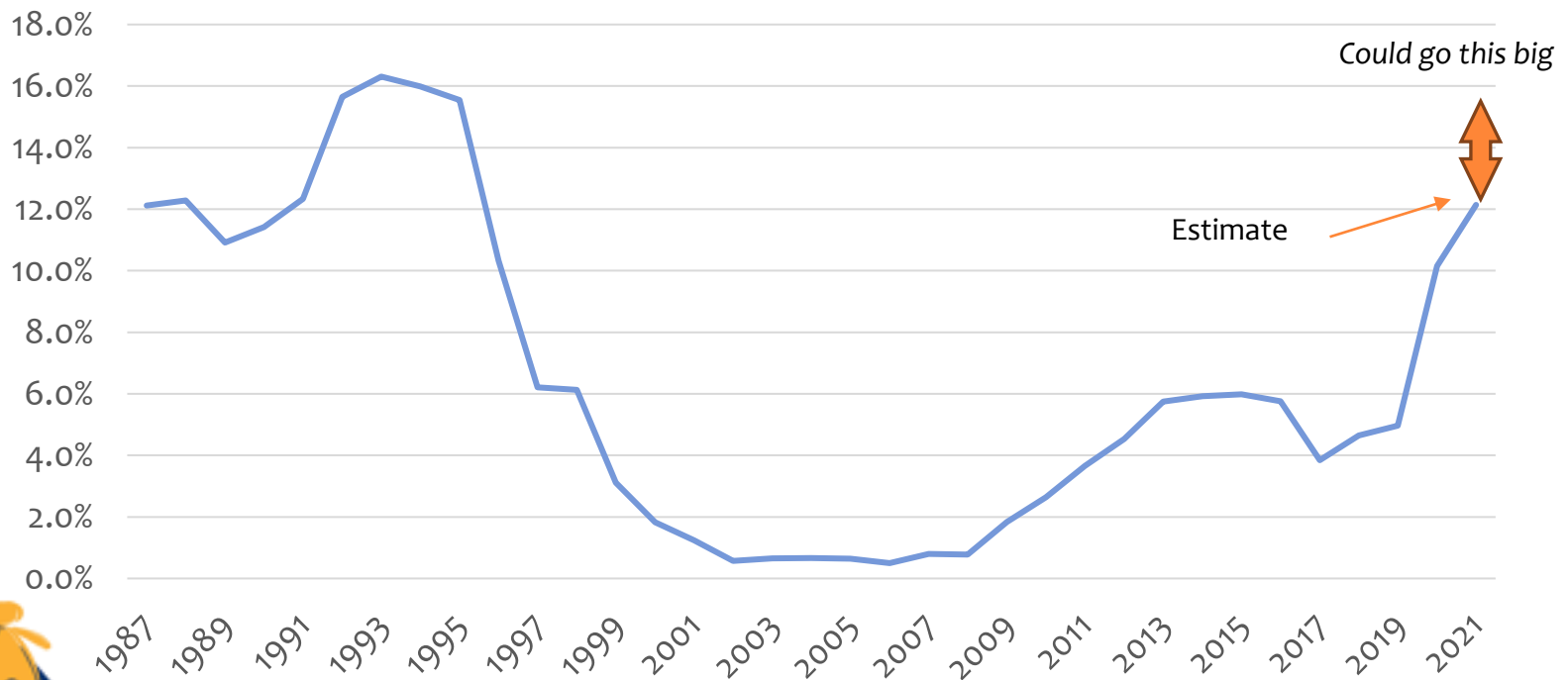


Concluding thoughts: one to remember

- * It is very unlikely you will live to see another budget like next week's
- * It will be unprecedented
- * It will be generous
- * And it will be good for Victorian social policy
- * The sting will be in the outyears
- * Will there be cutbacks and revenue hikes to bring the budget back to the black?
- * I would worry about that next year!

Why we should remember this budget...

Net debt, General Government, Victoria, 1987-2021
(est.), % of GSP

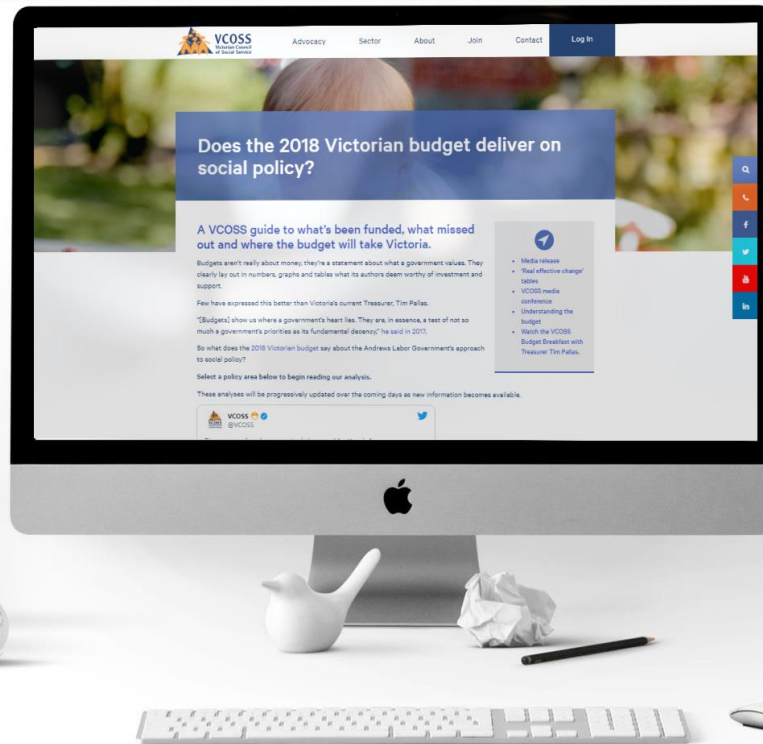


What to expect on budget day



NOT THIS

What to expect on budget day



Thankyou for attending.