

Smoke and mirrors hide funding facts – Opinion piece published in The Age

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*What the budget has given us is speculation, not genuine investment, writes **Kenneth Davidson**.*

HOWARD'S battlers are asking why, if the economy is going as well as the Government claims, are we struggling to keep up.

Part of the answer is the squeeze on the wages share of national income in favour of corporate profits.

According to the national accounts, between 1996 and 2006 the wages share of gross domestic product fell from 56 per cent to 54 per cent, while corporate profits rose from 23 per cent to 28 per cent. That is equal to about \$40 a week if wages had maintained their mid-1990s share of national income. But, worse for the battlers, the federal tax burden has increased from 23.3 to 25 per cent of GDP in the same period.

The Government disguises this in the budget papers by claiming the GST is a state tax, not a federal tax - a claim flatly denied by the Bureau of Statistics and the Reserve Bank. That claim also contradicts the Government's Charter of Budget Honesty.

If the budget documents accurately reflected the fact that Peter Costello is the biggest-taxing treasurer in Australia's history, there might be a more meaningful discussion of how the money is being spent.

Most taxpayers probably accept the Government's assurances that the money invested in the Future Fund (and by implication, the money invested in the proposed Higher Education Endowment Fund) will end up financing retiring public servants (and university capital projects). What most taxpayers don't understand is that sharemarket investments are primarily an outlet for speculation rather than real investment in wealth creation.

Setting up these funds outside the normal budget, with normal appropriations, subject to cabinet and parliamentary approval, is not only an affront to democratic process, it is also wasteful and potentially corrupt.

Nobody denies that budget papers are political as well as economic documents, but using smoke-and-mirrors tricks to disguise rent-seeking is bad government. The question is, who has a vested interest in bad government?

Few people apart from public servants who are directly accountable for the expenditure of public money actually read the portfolio budget statements that accompany the main

budget papers. They are all but impenetrable to Parliament and the public, and deliberately so.

The Finance Department's statement contains information on the cost of the Future Fund Management Agency. According to the accounts, fees paid to the six board members are expected to rise from a total of \$600,000 to just under \$700,000 by 2011.

But this is nothing compared with the estimated \$225 million a year in payments to consultants who advise the board about which share investments the Future Fund should undertake when it reaches maturity. And for what return? According to the portfolio statement, the Future Fund is estimated to get a return of \$5.6 billion a year on an investment of \$77 billion, a return of 7.4 per cent before fees are deducted and 6.9 per cent afterwards. The net return to the Future Fund of 6.9 per cent according to the statement is only 0.5 per cent higher than the 90-day bank bill rate.

The \$77 billion that the Future Fund is investing is largely the proceeds from the sale of assets, including all the buildings the Commonwealth owned in Canberra apart from Parliament House and the War Memorial. The rationale for the sale of these buildings was that they could not earn a return to the Government in excess of 15 per cent.

Most of these buildings are now being rented back by the Government for a cost well in excess of the long-term bond rate of just under 6 per cent, which would have been the cost of the government debt if the buildings had been retained in public ownership.

The Future Fund offers magnificent scope for corporate "rent seeking" at practically every step. Most of the privatised assets were sold at bargain-basement prices, shown by the fact that in most cases shares in them rose immediately after listing.

Economically that is no different to borrowing at a higher interest rate than the long-term bond rate. Yet the eradication of government debt is trumpeted as one of the Howard Government's finest achievements.

If the receipts from the sale of assets had been reinvested directly in infrastructure such as education, transport and communications, with much higher returns than the long-term bond rate, the asset sales may have been justifiable, but such an approach would have severely reduced the scope for corporate rent-seeking behaviour by banks and other financial institutions. But even the political payoff is a wasting asset. The response to the Higher Education Endowment Fund by university administrations, staff and students suggests that by election time they will have seen through the fund as simply a junior version of the Future Fund.

The budget papers forecast a return of \$300 million from the \$5 billion Higher Education Endowment Fund. This is a fraction of the return the Government could get by directly investing in recurrent funding of childminding, preschool, school and higher education.

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