



Surplus hopes in doubt as costs leap

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KEVIN Rudd's plan to get the budget back into surplus is being undermined by blowouts in spending on health, welfare and interest payments, making the need for future budget cuts more likely.

Figures provided by the Department of Finance show that half of all government programs are already rising in cost by more than 2 per cent a year, after allowing for inflation, and are ex-

pected to continue doing so over the next three years.

The government has vowed that total spending growth will be kept below that threshold once the economy's growth rate returns to a normal 3 per cent.

The wind-down of the stimulus program over the next two years will help the government hit its target in the short-term, reducing government spending by \$17.3 billion. However, the Department of Finance figures show that getting the country back to surplus will require deep cuts in other parts of the budget.

The programs with real cost increases of more than 2 per cent a year will total \$165bn this year out of a total budget of \$338bn.

Access Economics director Chris Richardson said: "There are big things that you can't cut, such as interest payments, and political no-go areas like pension payments and spending on veterans, where the Vietnam veterans are getting expensive."

Mr Richardson said the budget figures showed the govern-

ment would still be in deficit by \$16bn by 2012-13, by which time the stimulus spending would have finished and the economy would be growing at its long-term trend.

"This leaves you with around half the budget to make some very big cuts of almost one dollar in 10 of the bits you can cut to get a balanced budget," he said.

A spokesman for Wayne Swan said the government's commitment to budget discipline had been demonstrated with \$55bn of savings in its first two budgets.

"In addition, the most recent mid-year budget update forecasts show spending growth below 2 per cent in all years of the forward estimates," the Treasurer said.

The Department of Finance figures show that the Department of Defence's equipment spending program will grow by an average of 21.2 per cent a year after allowing for inflation over

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the next three years, while last year's pension increase and rising numbers of baby boomers retiring translates to an average annual increase in pension costs of 10.1 per cent.

Major components of health spending are expected to keep increasing by more than the government's target rate, with

aged care rising at an annual average real growth rate of 13.5 per cent, pharmaceutical costs rising by 4.9 per cent and Medicare costs at 2.5 per cent.

Other budget decisions taken by the government are adding to the cost pressure, including the spending on roads, rising at an average real rate of 10.1 per cent, and the water-reform commitments, which are rising at 6.7 per cent a year. The ballooning budget deficit means that interest costs are rising at a rate of 5.5 per cent a year.

"There is not much wriggle room," Mr Richardson said.