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The gigantic hole in the federal budget and how to fix it by Bronwyn Kelly Founder, Australian Community Futures Planning

Being an ex-public servant with lots of experience in balancing big budgets I know quite a few of the tricks that the financial wizzes in Treasuries rely on when building budgets and making medium term projections.

It is common knowledge that assumptions are often fudged to make our future prospects look better than they often are. And the budget handed down by the nation's Treasurer Josh Frydenberg this month is no exception. It is replete with brazen assumptions that have no reasonable basis, the most obvious being the assertion that GDP for the calendar year 2020 will fall by a mere 3.75%, when the plain fact, as already recorded by the ABS, is that [more than 7% has been wiped off our GDP in just the first two quarters of 2020](#).

Spinning a 7% loss in two quarters into a mere 3.75% loss over four quarters – when the more likely outcome for the calendar year is that two more quarters of economic contraction will be added on to the first two – is a spin trick that does no-one any favours. Nevertheless, many Australians can develop a healthy scepticism about the budget's optimistic assumptions – healthy enough to enable ongoing interrogation of the strength of the budget and the government's economic management.

But it is very difficult to develop a sound interrogation of any budget when things are completely left out of it that should be brought to account, particularly future liabilities the government is aware of but chooses not to disclose. This budget has ignored one such known liability. And this time it matters, because it is an enormous one.

Normally the government can get away with its failures to bring known future liabilities to account. Rarely, if ever, are they held to account for their misleading assumptions, their omissions of known impending liabilities, and the damage done to the economy from their failure to help Australians prepare for the coming economic challenges.

But the liability ignored in the 2020/21 budget is so big as to promise irreparable damage to the economy. This liability arises directly from current policies on carbon emissions reduction targets.

Last year the [University of Melbourne's Sustainable Society Institute](#) took the time to calculate what it would cost Australia if we stick with our current target of a 26-28% reduction on our 2005 CO₂-e emissions by 2030, and if we don't introduce a carbon price, and if we don't change our policy stance in international negotiations on emissions reduction. They figured out that this business-as-usual policy approach would cost Australia "a minimum of \$584.5 billion in 2030, \$762 billion in 2050 more than \$5 trillion in cumulative damages from now until 2100."

The number crunchers at Treasury should have foreshadowed this, bearing in mind that the budget assumes no change to current climate change policies, either in emissions reduction targets or in terms of commitment to meeting the temperature objectives of the Paris Agreement.

But of course, if Treasury had foreshadowed the impending economic losses, then it would have been uncomfortably apparent that Josh Frydenberg's claim that his "economic and fiscal [strategy sets out a path to grow the economy, stabilise debt, and the reduce it over time](#)" is so far wide of the mark as to be patently false. It simply doesn't add up.

What we have in the 2020/21 budget is a lamentation by the federal government about having to take on new debt starting at [\\$314 billion](#) for Covid-19, but omission of vital information that our current adopted climate policies will build an economic loss for Australia that is at least twice as big as the debt we have taken on.

This begs the question: how will we repay the \$314 billion debt for Covid-19 over, say, thirty years if the economy contracts by a minimum of \$762 billion over the same thirty year period due to climate policy failure? The loss we are exposing ourselves to in climate policy inaction is at least twice the size of the Covid-19 debt.

This is not to say we shouldn't have taken on the new debt. Quite the contrary. Politicians and economists of almost all persuasions agree on its necessity, as does the Reserve Bank. But Australia's current climate policy fails its current debt policy – totally, and then some. And the Treasurer's accounting sleight-of-hand is the more hurtful because if it were explained to Australians now, we could switch to climate policies that will head off much of the huge budget problem our government is creating for us.

This is because, unlike the losses from Covid-19, the losses Australia is being exposed to by current climate policies may yet well be entirely avoidable. The University of Melbourne's modelling includes a scenario suggesting that we can reduce the losses we're facing with our current climate policies possibly to as low as \$35.5 billion by 2030 if we change our negotiating stance in Paris Agreement talks. What they mean is that we can reduce our losses if we meet our current meagre emissions reduction target of 26-28% of 2005 emission levels by 2030 – but only if we adopt a carbon price and convince rest of the world to double their current emissions reduction pledges. The current government is unlikely to meet its own meagre emissions reduction pledge, let alone adopt a carbon price and convince every other nation to double their pledges. But even if we did achieve this, the reality is that we will need to do a lot more if we are to keep the earth from heating by more than 1.5°C and recover from our recent economic shock inside thirty years.

As a minimum, we will need to heed statements like the [IMF's recent enjoiner](#) for the world to adopt [a carbon price and a green investment push](#). This is the minimum of necessary action, because the IMF is working on an assumption that achievement of net zero emissions globally by 2050 is sufficient to ward off catastrophic temperature rises and all the associated exorbitant economic cost. Unfortunately, the IMF has the wrong end of the stick there.

If the world coasts along in a plan to reach net zero by 2050, the physical reality is that we will still have emitted too much carbon to the atmosphere to stop the heating and all its associated costs. The problem with net zero by 2050 is that as at 2020 the world can only emit about [350 billion more tonnes](#) of carbon to the atmosphere before we lock in heating of between 2 and 4 degrees – or maybe even 5 or 7 degrees.

Worldwide emissions are currently running at about 36 billion tonnes per annum. So if we scale down in a straight line to zero over 30 years – with even annual load reductions of 1.17 billion tonnes year-on-year – yes, the world will reach net zero by 2050 but will still end up emitting more than 540 billion tonnes, almost 200 billion tonnes more than is safe. This will lock in the very heating we are trying to avoid. In fact, if the world walks that slow path to net zero, it's game over in temperature terms by about 2032.

There is a likelihood that the game will be over in temperature terms by as early as 2027. Why? Because the 350 billion tonne carbon limit [gives us only a 67% change of staying below 1.5°C](#). For a near 100% chance, the world really should be setting a carbon budget limit closer to 235 billion tonnes.

It all sounds terribly disturbing – and it is. But there is still time to fix it and nations like Australia have it in their power to fix this at home. They also have it in their power to lead the world to make sure it is fixed and our economy will benefit if we do.

Australians can do the maths on this, if they are given a chance and if Treasury wizzes help them by bringing what they know about future liabilities to account. What should have been brought to account in the federal budget for 2020/21 can be seen in Australian Community Futures Planning's latest episode in its seven-part video series on [The State of Australia in 2020](#). And with that information in hand we can take a pretty good shot at heading off the unnecessary environmental and economic disaster that will arise from our current climate policies.



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