

The Australia Institute

Research that matters.

TITLE: Abbott delivers a billionaires' bonus

AUTHOR: Matt Grudnoff

PUBLICATION: New Matilda

PUBLICATION DATE: 14/05/14

LINK: www.newmatilda.com

To paraphrase Winston Churchill — never in the field of budget conflict has so much been extracted by so few at the expense of so many.

While the rest of us face a horror budget where we are told to keep calm and carry on, the miners are walking away puffing a cigar and doing the “Victory” sign.

The miners get a tax cut while the rest of us get services cut.

Scrapping the mining tax will cost the budget \$5.3 billion and will go mainly to the biggest mining companies.

While this undoubtedly makes voters like Gina Rinehart, Twiggy Forrest and Clive Palmer happy, the rest of us make do with less money funding health, education and income support for the most vulnerable.

To replace some of this lost revenue, the government is planning to hit 300,000 people — all of them very-high income earners — with a deficit levy.

Robbing the rich to give to the super-rich doesn't seem to make much sense. But it makes even less sense when you realise the so-called debt levy doesn't even fully pay for the miner's tax cut, and it's only temporary (it lasts three years).

So to pay for the miners tax cut the government are forced into other tough measures. It will cut \$1.9 billion from pensioners, half a billion from Indigenous affairs and \$1.2 billion from unemployed people under 30. These effectively rob from the poor to give to the super-rich.

What a budget does more than anything else is highlight a government's priorities. While it is interesting that the Abbott Government has decided to increase taxes, particularly after the election campaign that it has just run, what is truly astonishing is that at the same time it's also cutting taxes.

The mining industry is clearly at the top of the government's priority list. They sit far above concerns about the cost of living for working families.

Now don't get me wrong. My only problem with the debt levy is that it is ad hoc and temporary. With tax revenue running well below average as a percentage of GDP, and government spending running at about average, the budget clearly has a revenue problem, not a spending problem.

But perhaps Tony Abbott is just unwilling to go back on some of his words. After all, he promised the mining executives he would scrap the mining tax. This of course begs the question why his word to Gina and co is worth more than his word to taxpayers? But putting that aside, it still doesn't explain his decision to go after ordinary motorists while letting the miners off the hook.

The mining industry currently benefits from the fuel tax credit scheme which allows them to write off the diesel tax they pay. This will be worth \$11 billion to mining companies over the forward estimates.

In fact the fuel tax credit scheme is becoming increasingly expensive. It is currently the 15th most expensive government spending program. The government spends more on the scheme than it does on income support for parents, support for government schools and child care.

The \$11 billion also dwarfs the \$3.4 billion the government will collect from reintroducing indexation to fuel excise. To replace the excise increase the government wouldn't even have to fully remove the subsidy to mining. They need only cut it by a third.

So why is the government willing to annoy millions of voters and motorists just to give a tax cut to a few mining companies?

Perhaps Abbott is hoping that the mining industry's contribution to the next federal election campaign is worth more than voter outrage, which may (or may not) die down before the next election.

Or maybe it is because the Prime Minister has seen what the mining industry did to the last government that offended it.

It's an indication of how deep the mining industry's influence runs in Canberra. Abbott would prefer to break election promises and slug millions with higher taxes in order to appease the mining industry.

But when it comes to appeasement, it's worth remembering Churchill again. An appeaser is one who feeds a crocodile, hoping it will eat him last.

Perhaps the government faces two crocodiles — the mining industry and the electorate.

This budget only tries to appease one, but the government may find the other has teeth as well.

Matt Grudnoff is a senior economist at The Australia Institute, a Canberra-based think tank,
www.tai.org.au