

**TITLE: Abbott shifts the budget's burdens**

**AUTHOR: Richard Denniss**

**PUBLICATION: *The Australian Financial Review***

**PUBLICATION DATE: 25/03/2014**

**LINK:**

[http://www.afr.com/p/opinion/how\\_to\\_fix\\_the\\_deficit\\_very\\_quickly\\_n7sza7xqzFttKwY1ngH4J](http://www.afr.com/p/opinion/how_to_fix_the_deficit_very_quickly_n7sza7xqzFttKwY1ngH4J)

Like Qantas, the problem with the Commonwealth's budget is a lack of revenue. If Qantas were to increase fares by about 3 per cent they would be back in the black, but for the time being at least, Alan Joyce has his eyes set on maintaining market share rather than maximising profits.

Similarly, the Commonwealth budget has seen revenue decline by about 3 per cent of GDP in the past decade and, in the words of Treasury secretary Martin Parkinson, "if we had the same revenue collections today as we had in 2000-2001, guess what: there would be no budget deficit at the Commonwealth level".

Like Qantas, the Abbott government is happy to wear a few years of budget deficit as it wages its war against its workforce. While shedding 14,000 public sector jobs will impose big costs up front, restoring revenues to their historical levels would quickly and effectively restore the budget bottom line, but again, like Qantas, the Abbott government is playing a longer and bigger game.

The Commonwealth budget is bleeding cash. The problem has virtually nothing to do with the costs of ageing or the welfare budget and nearly everything to do with the decisions of the Howard and Rudd governments to introduce permanent, and massive, cuts to the revenue base when the economy was booming along nicely. Nearly a decade on, the price we are paying for their generosity continues to grow.

## **COST OF TAX CONCESSIONS**

The cumulative cost of the income tax cuts from 2005 to 2012 was about \$170 billion. Last year alone the budget would have been \$40 billion better off if those last, end-of-

boom, rounds of tax cuts had not been introduced. To put that into perspective, the budget deficit last year was \$19.4 billion.

Of course the Howard/Rudd income tax cuts aren't the only source of the revenue shortage. The cost of tax concessions for superannuation continues to grow by about \$5 billion per year and will soon top \$50 billion. Strangely, no one ever asks where the money for the superannuation tax breaks will come from.

Similarly, the cost of the 50 per cent discount on tax payable on capital gains costs the budget about \$4.3 billion a year and, in so doing, creates enormous incentives for firms and individuals to engage in financially lucrative, yet economically wasteful, financial engineering.

The idea that you should never let a good crisis go to waste is well known, but genuine strategists often create the crises they need to generate the solution they want. Just as Qantas is using its crisis to shed jobs and outsource maintenance, so too is the Abbott government. Just as Australians would prefer their planes maintained on Australian soil, they would prefer a health system that looks more like Medicare than Obamacare. But leaders know that if you scare them enough with "financial crises" it's a lot easier to get them moving in a new direction.

#### WEALTHIEST POINT IN HISTORY

Australia is one of the wealthiest countries in the world and we are living at the wealthiest point in world history. We have just committed to purchasing a new fleet of joint strike fighters, we are planning to spend between \$30 billion and \$50 billion to double the size of our submarine fleet and the Prime Minister is committed to spending more than \$5 billion per year on a new paid parental leave scheme which, like our superannuation system, will deliver the biggest benefits to the wealthiest Australians and literally nothing extra for the lowest income earners.

It can be hard for a new government to explain how it can afford massive new spending programs while saying it must make massive cuts to existing programs. But it doesn't have to be. It's all about making sure people are looking at the half of the glass that's empty. And that's where commissions of audit come in. If the audit commissioners are committed to making Australia's public finances strong enough to provide the services and infrastructure the public wants, they will focus on the need to close the big revenue holes. But if they want to create a climate of fear to make it easier to cut services, they will probably propose some new holes.