

**TITLE: Austerity is not the only choice**

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Thanks to Peter Costello a retired superannuant drawing down \$1 million per year, tax free, doesn't even have to pay the 2 per cent Medicare levy. That is just one of the inequitable and unaffordable time bombs that the last Liberal treasurer planted for Joe Hockey to deal with.

Hockey tried to sell the idea that the solution to rising health costs was for those on minimum wage to face a \$5 co-payment. That went well. Costello also relaxed the pension means tests to allow people with \$1 million in super to be eligible for a part age pension and the associated health concession card. Hockey's proposed solution? Cut the age pension. Good luck with that.

For two decades the Coalition's fiscal and political strategy has been pretty straight forward: Cut taxes and increase middle-class welfare when times are good and cut the welfare safety net for low-income earners when times get tough.

The Americans call this strategy "starving the beast". Tax cuts are always popular among high-income earners and, after they are implemented, they create pressure to cut the services that lower-income earners rely on most heavily. It's easier to argue that "the deficit is out of control" than it is to make the case for fewer nurses and a lower age pension, so conservatives simply cause future budget deficits by cutting revenue when things are going well.

Back in 2006, as Costello's career waned and the mining industry boomed the Coalition government not only decided to make withdrawals from super entirely tax free and allow millionaires access to the age pension, they introduced massive tax cuts as well. The cumulative cost of those tax cuts is now more than \$200 billion.

And now all Hockey has to do is cut spending even faster than Costello destroyed our revenue base.

The intergenerational report is another gift from Costello to Hockey. The first couple of reports had the desired effect of making Australians feel broke at a time of unprecedented wealth. But after 15 years the scare campaign doesn't work nearly as well, and the earlier volumes have been around long enough for everyone to see how meaningless and inaccurate such long run forecasts inevitably are.

The IGR was designed to scare the public into accepting the need to cut spending. That said, a close read of its tables and appendices makes clear that Australian governments face a much longer menu of choices than the "hurt the poor or have deficits forever" highlighted in the executive summary.

According to the IGR real GDP per person will nearly double from \$67,800 today to \$121,900 (in today's dollars) in 2055. Are you scared yet? Treasury also assumes that someone earning \$300,000 (inflation adjusted) per year in 2055 will pay a lower average tax rate than someone earning the same income today. Terrifying, isn't it.

Treasury understands the need to starve the beast and, in turn, in projecting what the future looks like, they assume that governments will make regular tax cuts to ensure that our progressive income tax system doesn't accidentally collect any additional revenue.

Treasury also assume that we will have no luck cracking down on multinational tax evasion, have no desire to clamp down on the tax concessions for super and will never revisit the wisdom of the 50 per cent tax concession on capital gains that Costello also bequeathed us. Put another way, Treasury assume that if we ever did close any of those loopholes we would instantly open other ones of a similar size. The IGR is adamant that future politicians will work tirelessly to prevent governments from collecting extra revenue.

Australia is one of the lowest taxed countries in the developed world. That was true when Tony Abbott won office, and it was even more true after he scrapped the carbon tax but left the carbon tax compensation in place.

Peter Costello had fun starving the beast while the economy was booming. But Joe Hockey is struggling to tame the beast now that economy is slowing. If he did nothing more radical than close some big tax loopholes, Joe Hockey could redefine the perception that the Abbott government is unconcerned with equity and incapable of delivering budget surpluses. But for many conservatives, the beast simply must be starved, even if there is plenty of food lying around.

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