

Get on the right path and voters will follow



IN March the Government released economic forecasts showing the Budget would move into surplus over four years. For the first time in a generation it could stop borrowing money and start repaying it.

The country had come through an austerity program. The Government asked for a mandate to continue the job. Its critics said it couldn't possibly survive. But it did. Last week in Britain, David Cameron's Conservative Party was re-elected with a majority in its own right. On the other side of the world, in May last year, another Government said it would balance the budget and go into surplus next year. In October it went to the polls seeking a mandate to continue its work. The National Party in New Zealand was re-elected to a third term.

Now, the latest news from New Zealand is they might just fall short of a budget balance this year. And, just because the British Government has forecast a budget surplus doesn't mean it will



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actually hit it. But those two election results — in countries that have similar systems to Australia — show there is an appetite for tough economic management and, what's more, an electoral reward for the parties prepared to pursue it.

That should be in the minds of the Coalition MPs tonight. Things are moving their way. Doing the right thing on the economic front need not spell electoral doom. A government that is able to level with the public, set out a clear path, and explain how reform will benefit the country, can be re-elected.

Of course neither Britain nor New Zealand has a pesky Upper House that can block budget

measures. It makes things harder in Australia. But in the lead-up to this year's Budget the Government is showing it has learned a thing or two about dealing with that.

Last year the Government expected the Senate would recognise the mandate it won at the election and pass its preferred plan. I feel a lot of sympathy for that approach. A government is elected to govern and shouldn't be held hostage to minority interests, which take no responsibility for the overall outcome. The trouble is, that is not how the Australian Parliament works.

In Australia, if the big parties try to veto Budget measures then it's the little ones and the independents who get to decide whether they will come into effect. In the lead-up to this year's Budget, the Government has gone out of its way to explain its proposals to the independents. It has drawn proposals with an eye to what will get through. This year it is much better placed to achieve outcomes.

The Government has also made

it clear it is not going to try to close the Budget deficit with higher taxes. Joe Hockey said on Sunday: "You can't tax your way to prosperity." He's right. That means the Government will have to address the Budget problem at its cause, which is overspending.

In 2009 the Rudd government increased spending by 13 per cent.

As a percentage of the economy it lifted spending by just under 3 per cent. The government said that the massive blowout would be temporary. It produced charts to explain how all the debt would be paid off.

BUT six years later, none of it has been paid off. Spending has not returned to where it was before the "temporary" stimulus. Rudd has long gone but Australia is still living with the debt he racked up.

And somewhere in those years the whole language of the Budget was corrupted. Labor said that new spending would be offset by "saves". It defined a "save" as a cut

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in spending or an increase in tax. The government pretended what was actually a tax was somehow a "save" and by taking more and more it was actually "saving". In fact it could spend as much as it liked so long as it taxed at a higher rate and still claimed it amounted to an overall "save".

I hope we will abandon that awful language. It leads people to think that in economic terms increasing taxes is the same as cutting expenditure. It is not. All taxes dampen economic growth and incentive. The only question is which will do the least damage.

Some expenditure cuts might reduce activity but there are many that can increase incentive and boost activity as well. There is

plenty of evidence to show that reducing generous welfare entitlements encourages people to work and become self-sufficient.

There is another difference between a tax rise and a benefit payment. A tax rise is taking money from someone who has legitimately earned it. It is theirs until the government makes it its own. A benefit payment is not earned — it might be deserved but it is not earned. It is the receipt of someone else's taxes. One involves giving and the other involves receiving.

Our tax system already takes a lot — some people pay half of every extra dollar they earn in tax. And of course there are more taxes when they save or spend what is left. Our Budget problem did not arise because they paid too little. Our problem began when previous governments spent everything they paid and more. Dealing with that is the solution.

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