

Clawing back from a Decade of Deficit



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Outside the noise and the hullabaloo, the mid-year Budget told us what we already knew. The Budget will be in deficit for another four years to June 2018. That will round out a nice even number — a Decade of Deficit starting from July 2008.

These deficits will be deeper than the government forecast back in May, but the government will have no trouble borrowing the money to fund them. The interest rate will be low. That's one benefit we have. The accumulated debt will be manageable not because of the journey but because of the starting point. Back in 2007, before we began this descent into deficit, we had no debt at all. We had credits in the bank. That is what is cushioning our fall.

Joe Hockey is right to point to the falling terms of trade, which make things much tougher than they were at the height of the boom around 2010. That's a hard thing to take. When these deficits took hold we were in a boom, not a bust. We were under water in the best of conditions. Now the seas are returning to nor-



Treasurer Joe Hockey. Picture: Britta Campion

mal. I hope our politicians, bureaucrats, journalists and others remember the lessons. It is easy to turn on the spending tap but so very hard to turn it off again.

We should put up a banner in the house of representatives: "Think Before You Spend".

Free healthcare and free tertiary education sound visionary and great. At the state funeral for Gough Whitlam many lauded the great man for making these things "free". But ever since the commonwealth government made them "free" it has been trying to claw back the cost from users. It isn't free at all and the tax system can't sustain it.

Making something "free" will always be popular. Clawing back the cost will not. To cut a spending

program once it is legislated requires a majority in the senate. It is so hard to turn off the tap once it is gushing out dollars.

A normal person might think that since it is so hard to limit existing schemes a prudent government would avoid starting new ones. If you are trying to save water and you have one gushing tap then for heaven's sake don't turn on another one!

But then again, a normal person would not be thinking about their place in history. The politician who thinks up a grand scheme gets naming rights and political credits. The person who does the work of financing it and making it sustainable gets nothing but opprobrium. So Julia Gillard takes credit for the national disability insurance

scheme (NDIS) which, in its current form, is guaranteed to break the balance of the budget when it gets going fully in 2020.

Tony Abbott has his "signature" paid parental leave (PPL) scheme due to start in July. It's hard for people to understand, on the one hand, that things are tight and we need to cutback when, on the other hand, the government is still introducing new entitlement programs.

It's just an idea, but the government could announce a halt to new entitlement programs until it has fully funded all of the old ones.

Another lesson we should take is that a growing economy can lift all citizens while a stagnant one leads to fights over dimin-

ishing returns. We can't afford to sit around any longer turning up our nose at growth opportunities. We can't afford indulgent state governments stopping the exploitation of gas reserves. We can't afford the CFMEU blocking concrete works on building sites. We can't afford the fiction that the industrial relations system is just hunky dory. Pretending these things are not problems does not fix them.

Pretty soon now the government is going to release a white paper on tax. It's a mystery what it wants to get out of this project.

It could not be looking at tax increases. This economy is flat. Higher taxes will flatten it more. They won't raise revenue anywhere like the dimension needed to get the budget under control.

Nor are tax increases going to buy political support for spending cuts. The May Budget showed that.

From an economic perspective, tax cuts might be a better idea. But to cut tax in places where it would count — such as company tax or upper marginal tax rates — would be a hard sell when cutting back expenditure. The politics are against it.

So the tax white paper is looking for context. That means that the likely thing is to ease it off the agenda. Fixing the Budget is the challenge of the present. Firing the economy is a big part of that.

Everything else should be focused on that objective.

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