

Levy will make Joe's job harder



TONY Abbott and Joe Hockey have an enormous task in front of them. Australia has recorded six straight Budget deficits and they want to stop that run from continuing. Our debt is way too high.

I know the feeling. In 1996 we had six straight deficits before the Keating Labor Government was turfed out of office. Back then our debt was higher, as a proportion of the economy, than it is now. Back then the Budget had been smashed by a recession. This time it was smashed during a mining boom.

Australia has a spending problem. Labor geared up spending to stimulate the economy and never stopped. The public understands that. They know that spending has to be cut.

Last week the Government floated the idea of raising tax as a way of "sharing the pain" so everyone would shoulder the burden of fixing the Budget. It is important to note this is a political argument. The proposed "levy" has



no economic benefit. To the degree it will affect the economy it will detract from growth by reducing consumption.

It will produce no interest rate reduction and, if it lasts four years and raises \$10 billion, the most it could save would be \$400 million in annual interest — hardly enough to touch the sides of the annual \$12 billion Government financing requirement.

The Commission of Audit did not recommend a Deficit Levy. It looked at funding government services over the longer term by cutting spending. In fact the Commission (rightly) said the Government should budget to return the tax it is going to collect as taxpayers are pushed into higher

brackets on the current tax rates. It did not recommend increasing those rates either permanently or on a "temporary" basis.

The argument for increasing income taxes through some kind of levy is all about the politics. That's why it was floated: to gauge reaction. If the Government had irrevocably decided to do it, it would have just announced it in the Budget scheduled for next Tuesday night.

I think there has been enough reaction now for the Government to conclude that far from making it easier to sell repairs to the Budget, the proposed levy would make things a lot harder. It would open up much worse lines of attack on the Coalition and the Prime Minister. If the Government put such a levy in place, then long after this Budget has been forgotten, the press and the Opposition would still be attacking the Prime Minister over credibility.

And attacks over tax promises can be devastatingly effective.

Just ask Julia (There will be no

Carbon tax under a Government I lead) Gillard, or Paul (L-A-W tax cuts) Keating.

The Budget will be put to bed on the weekend. Tax proposals are regularly put in and put out in the last week before a Budget. The original proposal can be changed, or dropped altogether. The Prime Minister and the Treasurer have Cabinet authorisation to do that.

NOW the proposed levy is being scaled back. Floating the idea has brought as much benefit as it could from this proposal. It demonstrated how bad things are and the kinds of measures that will be needed in future if steps are not taken to cut spending now. It has reminded Ministers what will happen if they don't co-operate and cut spending. It has had its "scare value".

What more can be accomplished? If Labor and the Greens vote against it and Senator Day (Family First) and Senator Leyonhjelm (Liberal Democrat) are against it, it will not go through

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the Senate unless the Palmer United Party (PUP) votes for it.

PUP will vote for it only if it can create maximum damage to its number one political enemy, the Coalition. The Liberal Party could be caught out campaigning for a tax rise that will never pass into law. All on the grounds it has to be seen to do something to the middle and upper-middle wage earners who voted for it.

When Labor was handing out money like confetti to "stimulate" the economy with pension bonuses, tax bonuses, back to school bonuses, it wasn't going to those people. They just kept working and paying their taxes and hoping for a better Government. Very few would have expected a

Coalition Government to propose higher income taxes than the previous Labor Government.

In 1996 I announced a surcharge on superannuation for higher income earners. There was a reason it was on superannuation and not on income tax. We promised not to increase taxes. The surcharge was one of the worst things I ever did. Labor voted against introducing it. When I finally abolished it (nine years later), they voted against that too.

Do you know what happened when Labor got into Government? They reintroduced that surcharge! That's the thing about bad precedents. Anybody can take them up and it's very hard to complain when they do.

If it is acceptable for an incoming government to spring increases on the higher marginal income tax rates, then don't think this will be the last government to try it.

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