

An economy to die for – surely Swan could manage a better budget?

The budget is the one set-piece of the parliamentary year. The government must present its spending plan across every area of policy and ask for the money to fund it. All the political journalists are listening and a good part of the public tunes in.

What they hear is not each little decision – of which there are thousands – but the priorities the government has set, and how \$360 billion of individual programs weaves together into a vision and plan for the future.

On Tuesday night Wayne Swan had people listening. He had the fortune to be delivering the budget at the peak of the economic cycle – the most prosperous trading terms in the history of the country. Other treasurers would have died for conditions like this. He



PETER COSTELLO

had an unrivalled opportunity to decide how to use our prosperity for today and tomorrow. He had the chance to let us in on the government's long-term ambitions for the nation. But he didn't. The occasion rose above him. It got away. No one is going to remember the 2011 budget. Except for the opportunity lost.

What Swan really wants to tell us about is the budget he hopes to deliver

next year. That's the one he thinks will be in surplus – his first. On these terms of trade he would have to try really hard not to balance the budget in 2012-13. So he is anxiously promoting the event. The shape of next year's budget will entirely depend on unknowns such as the rate of a carbon tax and how much compensation the government has to pay to get it. So let's not focus on the budget we don't have. Let's focus on the one we do – this year's budget – Wayne Swan's fourth deficit.

In the lead-up to the budget he went to great lengths to tell us how tough it would be. It was his mantra until last week when Julia Gillard announced that families with older teenage children would get an extra \$4200 for each child in education. Then at the weekend Stephen Conroy

announced free television set-top boxes for all pensioners. If this is tough then show me soft. Once upon a time, "tough" meant taking away handouts. Now it means introducing them. The public would have been confused. But I suspect the government was even more confused.

What is the story? It can either be that budget, the government has to run up debt and families and pensioners need more handouts. Or it can be that we are in a time of unrivalled prosperity which means the government should be in surplus and paying off debt and taking money out of the economy to help dampen the roaring boom. Which is it? The government argues both depending on the audience. Which is why the budget has no coherence, no

strategy, and no conviction. Even the much-vaunted \$22 billion of savings (over four years out of a total spend of \$1500 billion) is not a saving at all. That money is reallocated to new spending. It is not a cut. It is not a saving.

So what should have been the ambition on Tuesday? In the financial sense it should have been to get back to where we were. The Australian government was debt-free in 2006. When Labor was elected the government had put away net savings of \$45 billion. To get back there will require budget surpluses of \$150 billion – over 10 per cent of GDP. That is the cumulative deficit of the last four budgets. Once we get back there, the ambition should be to put away some of the boom for future generations by building the Future Fund to

ease the pressure when Australia is back in more normal conditions. And we should be doing things to make our economy more productive.

Last night Swan claimed he had introduced 12 reforms identified by the Henry tax review. But he is just cherry-picking the tax increases Henry recommended as ways to pay for reducing taxes in other areas – areas where our tax system is hampering enterprise with high marginal income tax rates, exorbitant stamp duty and the like. We still have none of the reforms, yet the government has pocketed the offsets. All this is setting back the prospects of a successful tax summit later this year and any prospect of real tax reform.

Further, the government has no plan to lift tax rates or increase thresh-

olds over the budget estimates. The thresholds in place in 2015 will be the ones I announced in 2007. With a period of rising inflation in front of us, taxpayers will go into higher marginal tax brackets even when their incomes do not rise in real terms.

So what is the response to the China boom? Apparently, the government plans to sit back and collect higher revenue as inflation rips into wage and salary earners. Outside that there is no plan for a better tax system, no saving for the future, no concerted effort to boost productivity. It could have been so much better. There are only so many times a country gets an opportunity like this.

Peter Costello is a former Liberal treasurer who delivered 12 budgets.