

# Malcolm Turnbull's problematic ideas fall on deaf ears

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The Coalition faces the challenge of campaigning for re-election on a nothing education policy and big cuts to hospitals funding growth.

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Australia needs new ideas to reconcile budget pressures and demands for ever-costlier government services. But voters and state governments don't like being ambushed with new ideas that seem half-researched and developed without consultation. It's even more galling when the proposals look like government attempts to: disguise a lack of tough decisions on budget repair (think reluctance to tackle tax perks for the wealthy); cover up errors on funding cuts to schools and education (think the 2014 Abbott-Hockey budget); and shift the blame for inevitable tax hikes to the states to plug the resulting gaps.

Little wonder then that the Prime Minister's handling of his latest idea – "the biggest reform to federation in generations" – lost him many admirers this week. By Friday afternoon most of the states, too, had resoundingly rebuffed his key plans for state income taxes as well as federal funding of state schools and hospitals.

Malcolm Turnbull's least embarrassing defeat was on health. He agreed to give the states \$2.9 billion from 2017 till 2020 to help partially offset the 2014 federal budget blow. The long-term challenge to redress that shortfall and more remains, as costly technology and the ageing populations stretch state health budgets.

The biggest rejection for the Prime Minister came when he was forced to withdraw a plan to allow states and territories to charge different rates of income tax to fund schools and hospitals. The states knew they would have to bear the political risk of raising taxes eventually. They also knew that smaller states would lose out, a likely tax-rate competition would distort national growth and businesses would face more red tape.

The resulting compromise is mere "consideration" of a federal-state income tax sharing plan "within the current envelope" – that is, no increases to federal or state income tax rates. There are some other positives, too. Federal-state tax sharing would come with a trade-off of further reductions in inefficient states taxes such as stamp duty and payroll tax, as well as, we hope, greater reliance on land taxes. What's more, fewer state grants would mean less duplication and improved flexibility for states to use the revenue more effectively. It is a good start for long-term reform as part of a comprehensive tax and federation package.

But another prime ministerial idea linked to shared federal-state income tax quite rightly vanished. The withdrawal of federal funding for public schools, leaving it with responsibility solely for private schools, would have entrenched privilege and created disparate school systems between states.

The biggest blow to Mr Turnbull may prove to be his forced deferral until early next year of a decision on education funding. The most politically charged issue between the states and Canberra will now be in limbo until after the election. The Prime Minister insisted on no extra federal money to help states plug the 2014 budget gap or fund the Gonski needs-based schools model. While NSW Premier Mike Baird thought Mr Turnbull had left open the option of funding Gonski beyond January 1, 2018, the Prime Minister sounded far less generous: "We're not wedded to the full Gonski, whatever that is."

The Prime Minister also labelled former Labor leader Julia Gillard's \$80 billion long-term commitments on Gonski and state hospitals "never credibly funded". That means his government will

have to campaign for re-election by defending a nothing policy on education and big cuts to hospitals funding growth. Labor has already unveiled a funded plan to mend the damage the 2014 federal budget has done to state-run services.

The Herald believes Gonski and hospitals can and should be funded. We believe the federal budget can be repaired at the same time. What's required is a government prepared to take tough decisions. Regrettably, that has been deferred until after the election. Once that is done, the incoming government should call a tax summit. All the ideas Mr Turnbull has taken off the table must be put back there and assessed – not in a couple of days before a meeting with premiers, but through a proper tax and federation white paper process of the kind the Prime Minister has ignored this year.