

The forgotten people of Coalition's budget plan

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Given the nation has repeatedly elected an obstructionist menagerie of minor parties and populist interests in the Senate, The Australian has long argued that the responsibility for sustainable economic reform rests with the major parties — the parties of government. In our editorials we often have argued that Labor should negotiate and co-operate with the Coalition to deliver fiscal repair, just as the Coalition supported sensible economic reforms by Labor during the Hawke-Keating years. But it has never come. Labor has been intransigent. And now we have seen what none of us expected: Scott Morrison and Malcolm Turnbull have attempted to resolve the impasse by mimicking Labor's approach, aiming to fund major ALP initiatives through tax increases. This is not so much compromise as capitulation and it poses real questions about the direction and calibre of national economic debate, the constituency for fiscal repair and who will lead the advocacy for this cause.

Former Labor prime minister Paul Keating has taken the unusual step of criticising Bill Shorten's response, making the obvious point that 49.5 per cent is way too high as a top effective personal income tax rate. Putting aside the economic points on international competitiveness and reducing the incentive for endeavour, there is the clear sense that in a liberal democracy it is an abomination to demand that taxpayers, no matter how wealthy, hand over almost half of their income in tax; or, if you like, be forced to work every second day for big government. Yet even under the Coalition the top marginal rate (plus the Medicare and temporary debt levies) has been at 49c in the dollar for three years and will reduce only to 47 per cent in July before a Medicare levy rise pushes it up again to 47.5 per cent the following year.

It seems clear, too, that the new bank levy will be passed on to taxpayers through higher banking costs and the impact of reduced dividends. There is no such thing as a free tax hit. Which is why most have accepted that the fairest way has been to spread the burden. Yet increasingly we see a policy push that forces fewer people on higher incomes to carry the burden for a majority who take more from the government than they contribute in taxes. A recent KPMG study showed up to 60 per cent of households were not net income taxpayers. This is an unhealthy situation socially and economically, and it is having a distorting impact on politics. Labor is morphing from a party for workers to a party for welfare recipients. And the epoch-defining aspect of last week's budget was that it saw the Coalition follow Labor's lead. Our major parties both now seem to repudiate the cross-party, aspirational instincts of Bob Hawke, Keating, John Howard and Peter Costello.

It is timely to urge the Coalition to consider its core constituency, which was never more accurately identified than in the famous "Forgotten People" radio address by the Liberal Party's founder. To mark the 75th anniversary of Robert Menzies' landmark speech it will be re-enacted in Canberra next week. The incumbent torchbearers would do well to listen. Sir Robert said big business interests tended to look after themselves, as did organised labour, but the middle class often was forgotten. He primed his party to represent and serve the interests of "salary earners, shopkeepers, skilled artisans, professional men and women, farmers" and the like. "They are envied by those whose benefits are largely obtained by taxing them. They are not rich enough to have individual power. They are taken for granted

by each political party in turn ... and yet ... they are the backbone of the nation.” He saw these people as the hope of the nation because they had a stake in its success.

It is worrying to think how pertinent this is today. It is the salary earners who are targeted for ever higher taxes to fund a growing list of government interventions and hand-outs. If they invest in housing or save for retirement the bipartisan consensus seems to be to tax them more heavily. If they try to budget for private education or health cover the consensus is to squeeze their choices. They tend to desire limited, frugal and consistent government. Like this newspaper, they value work, choice and aspiration, and they need governments to nurture their interests and ambition.