

Our winter of increased spending and double tax

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In an ideal world the genius of our federation would hinge on the division of responsibilities between the state and commonwealth levels, co-operative policymaking between governments and a creative tension as each sphere looked to emulate the successful reforms of others. But for the foreseeable future it seems this benign and productive view of our system is Gonski. In an ad hoc but relentless process Canberra has interposed itself in almost every policy area. Now we see levels of government not aping each other's success but mimicking ideas in cynicism and opportunism. This is a pessimistic but compelling way to view a week in which a federal Coalition government injected itself into the funding arrangements for every school in the land by promising an extra \$24 billion under a previous Labor government's formula, and in which the South Australian Labor government decided to carbon copy Canberra's tax raid on the major banks to fund election-year spending.

There is no justification for the state-based banking impost from SA Premier Jay Weatherill and his Treasurer, Tom Koutsantonis. The states promised to scrap financial institutions taxes "and not reintroduce them or similar taxes" as part of their deal in 2000 to take all the proceeds of the GST. Yet this \$370 million tax targets the big four banks in SA. "Banks are continually closing branches, they're continually charging us to take our own money out of the banks, they're continually charging us to send out our own statements, this is an organisation that is making super profits, and they're not paying their fair share of tax," Mr Koutsantonis said. This was not an economic justification but an explanation of political populism.

Sadly, the opening for this move was provided by the federal Coalition in its May budget when Malcolm Turnbull and Scott Morrison introduced a bank levy. "This is a fair and reasonable tax on our banks," the Treasurer said at the time, "over \$30bn in pooled profits, and this is a \$1.5bn out of that more than \$30bn — I think that's a very reasonable amount." The federal government had another justification about charging for an implicit guarantee but its most prominent argument was simply about tapping banking profits. "The banks can do more to support the job of budget repair," Mr Morrison said. Now the SA Labor government has decided banks can do more to support its election-year spending. This is a downward spiral in national policymaking and already Western Australia has suggested it may follow suit. The banks are right to seek legal advice about the Weatherill government's tax and the Prime Minister is right to point out the double-whammy bank levy sends a terrible signal to prospective investors in that state. Already BankSA (owned by Westpac) has scrapped sponsorship of a state budget function and put a hold on plans to invest in an SA back office operation.

This blow-up over taxation occurs as the Turnbull government celebrates the passage of its education package, which boosts school funding by \$24bn across 10 years. This is the other side of the equation: a government that is increasing tax to repair its budget is simultaneously lifting spending. The Coalition deserves some credit for massaging these measures through parliament. "Nearly a year ago, after the election," Mr Turnbull pointed out yesterday, "many distinguished members of the press gallery took the view the

parliament was unmanageable and we wouldn't be able to get anything passed." Yet the Prime Minister has won this victory only by adopting what even he argues is a purer version of Labor's Gonski plan and by promising tens of billions of dollars that are yet to be raised and which, on the available evidence, will not necessarily boost education outcomes. Politics and policy always operate in tandem but in this nation in the past decade the trouble is that politicking has dominated.

The lines between federal and state responsibilities are increasingly blurred. Canberra's funding deals give it a direct hand in the operation of all schools and hospitals, once state responsibilities. From law enforcement to parole, the areas of jurisdictional overlap are expanding. Even on taxation powers we are seeing a doubling-up and lack of co-ordination. Meaningful federation reform is desperately overdue.

But what hope is there of reform in the present climate? The Labor Party under Bill Shorten is so determined to oppose that it tried to block what was effectively the implementation of its own schools model. It now attempts to characterise a \$24bn funding increase as a \$22bn cut — that is how divorced Labor is from reality. This is a party that has counted savings measures in its pre-election costings and opposed them after losing. The national interest and ongoing fiscal challenge are constantly discounted in favour of base politics. The Opposition Leader will not even expel from the ALP militant union officials who threaten to hunt down and torment bureaucrats charged with ensuring they comply with the law. As parliament starts its winter recess it is little wonder we are sensing much discontent.