Terry McCrann: Budget update of credible tax cuts a happy portent of 2018

Terry McCrann, Herald Sun, December 18, 2017 9:00pm
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THE midyear Budget update has a very big political bottom line: it will enable the government to promise credible tax cuts at either the formal Budget in May or running down to the election.

Notice two very important points. First, I wrote promise tax cuts, not (immediately) deliver them, as they could only credibly start in the 2019-20 year; and even then, only start small, after or coincident with the election.

Secondly, I very deliberately used that word 'credible'. They would have to be relatively modest — not even giving back 'bracket creep' — and would most likely be done by shifting up the brackets not cutting the actual tax rates.

MORE MID-YEAR FEDERAL BUDGET: NEW MIGRANTS FACE THREE-YEAR WELFARE WAIT
JAMES CAMPBELL: GOOD NEWS FOR JOBSEEKERS COMES WITH STING IN POCKET
AUSTRALIA'S THREAT TO TRIPLE-A CREDIT RATING SUBSIDES
FAMILY PAYOUTS AND UNI FUNDING FREEZES

There is also one very big qualification over all this — this assessment assumes there ain't some shock left-field event that derailed all the Budget numbers, to say nothing of the actual Aussie economy.

Nevertheless, while the update doesn't fundamentally change the Budget outlook and nor does it signal that 'happy days' are decisively back again for the Australian economy and for all of us, they do carry the government, and the Prime Minister in particular (and the Treasurer), to a relatively Happy New Year.

Getting same-sex marriage done, getting his deputy-PM back, and most importantly of all not getting Kristina across the dispatch box from him — and now the 'good' Budget numbers — puts government and PM in a better place than they might have anticipated. Even the bad Newspoll numbers aren't woefully bad.

The key plus in the Budget update is the way it enables the government to craft a credible tax and economic narrative that doesn't set good policy at war with desperately needed voter-appealing politics.

Treasurer Scott Morrison and Prime Minister Malcolm Turnbull.

BRACKET CREEP WILL FORCE UP TAXES
MPS PRESS PM TO CUT TAX IN FIGHT AGAINST BRACKET CREEP

Sure, as analysts as diverse as the Centre for Independent Studies and the Moody's rating agency noted, the numbers didn't point to a dramatically different — read: improved — Budget outlook.

But provided we — obviously, more accurately, they — can keep a lid on spending and tax revenues continue to grow with a continually growing economy, more taxpaying workers, and bracket creep, we'll slowly get back to surplus in the 2020-21 year — pretty much as predicted last May.

You gotta remember the key qualification — these Budget forecasts are always wrong. Just look at the biggest predicted improvement — this year's deficit. In May it was forecast to be $29 billion, just six months later it's now forecast at only $23 billion.

STATE OF BUDGET

- **$9.3 billion** better bottom line since May forecast
- **$10.2 billion** surplus predicted by 2020-21 — the first since 2007-08
- **$6.5 billion** in lower-than-expected spending
- **$3.6 billion** boost in tax take, courtesy of rising company profits and stronger superannuation returns
- **$23 billion** projected lower gross debt by 2020-21

NEW SPENDING SINCE MAY BUDGET

- **$2.1 billion** for new and changed listings on the Pharmaceutical Benefits Scheme, including for chronic lymphocytic leukaemia
- **$1.3 billion** for the new schools funding package over four years
- Alternative university package, including freeze on Commonwealth Grant Scheme funding from January 1. The reforms will cost $605 million over four years — less than the previous package.
- **$118 million** for the Office of National Intelligence

KEY SAVINGS SINCE MAY BUDGET

- **$1.2 billion** over four years through broadening the waiting period for new migrants to access some welfare benefits
- A new minimum HELP loan repayment threshold of $45,000 from July 1
- **$1 billion** over four years through greater family day-care compliance
- Changes to after-hours doctor visits — part of a broader package saving **$409 million** (to be directly reinvested into Medicare).
- **$29.6 million** over four years by ending school enrolment and attendance measure
- **$176.6 million** using Family Tax Benefit lump-sum, reconciliation or arrears payments to repay outstanding social security, student assistance and parental leave debts from December 2018

Source: Commonwealth Mid-Year Economic and Fiscal Outlook, 2017-18

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The curious feature of these numbers is that the Budget is predicted to improve even though the economic forecasts on which all the dollars are based are actually seen as being a tad worse than predicted last May.

Further, for once, these predictions could turn out to be overly pessimistic. The all-important US economy is only projected to grow at a very ordinary 2 per cent this year and just 2.25 per cent after that. The reality of Donald Trump's big tax cuts and a very, very bullish Wall St could deliver a big upside surprise.

On the other hand, as soon as our Budget looks like getting back to balance, politicians get the urge to start spending.

All the big — and challenging — bucks stop at Treasurer Scott Morrison's desk. Yes, he can now promise some tax cuts. But he has to lock the Budget box on everything else.

MORE GAS EQUALS CHEAPER GAS

THE ACCC's attempt to force BHP and Esso to compete head to head with their Bass Strait gas comes around 20 years and insane national and Victorian energy policies too late.
Both the passage of time and the combined impact of those energy policies mean that we now have a built-in — and completely, insanely, unnecessary — shortage of gas.
Competition only delivers lower prices if there's a glut. We might have had a (potential) glut 20 years ago, when forcing BHP and Esso to compete might have worked. But no longer.

Their gas fields are peaking and heading down. Why would they cut prices when they get to sell all they can pump? And they don't have to worry about competitors.
There ain't much gas coming south — NSW bans companies from finding it and Queensland's sending its gas to Asia.

While in an exercise that combines unbelievable levels of stupidity and irresponsibility, the state Labor government of Daniel Andrews has prohibited anyone else finding gas in the state and competing with Esso and BHP!
Andrews has not only banned so-called unconventional exploration — shale fracking — but also the onshore conventional drilling which out in Bass Strait has been pouring gas into Victorian homes and factories for half a century without a single fish — or whale — being harmed.

Then add on the entirely bipartisan stupidity in Canberra which wants to generate more and more electricity with gas — and that means even less available supply of gas for fuelling the sort of things that gas works best at.

Victorians had three decades of cheap gas thanks to BHP-Esso's discovery and development of the Bass Strait oil and gas fields, when the price to the old Gas & Fuel was fixed at just 26c a gigajoule. Now we we're paying somewhere between $6 and $10.

The very cheap prices ran out around the turn of the century when they reverted to 'market'. But subsequently we decided all on our own to send the prices rocketing even higher by artificially limiting supply. What the ACCC is doing won't deliver a single extra gigajoule into the market and so will make zero difference to price.

We'll only get more gas and lower prices by turfing Andrews & Co.