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ADDRESS TO THE HOUSE OF REPRESENTATIVES
ADDRESS IN REPLY
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Of the three budgets delivered by the Rudd Government, this is the most political, the least believable, and the most damaging to Australia's long term future. It's a typical, old-fashioned, tax-and-spend Labor Budget that also features all the debt and deficit that can be expected from Labor, only covered up by clever accounting and a great big new tax on mining.

If the government's revenues really had exceeded expenditure, it would be entitled to claim prudent economic management. What the government has actually delivered, though, as opposed to talk about, is a \$57 billion deficit this year – the biggest ever. What the government is actually doing now, as opposed to promising in three years time, is borrowing \$700 million every week till then.

Brazenly, the government wants credit for a surplus that doesn't yet exist and that it's unlikely ever to achieve. The surplus that it says will happen in three years time is based on increased taxes and on the growth that those increased taxes will almost certainly strangle.

That \$1 billion surplus is roughly the amount required to fix the pink batts program that's been linked to four deaths; the amount required to pay for the extra detention measures needed because the government has lost control of our borders; or the blow out in the computers in schools programme. It's roughly half the blow-out in the school hall programme.

Does anybody seriously believe, based on this record, that a re-elected Rudd government could avoid another, surplus-shattering disaster sometime in the next three years?

It took the last Labor government thirteen years to accumulate \$96 billion of debt but this Labor Government expects to do the same in less than half the time. It took a change of government to get Labor's debt paid off last time and, once again, the quickest way to get rid of this debt will be to get rid of this government.

Everyone wants our country to succeed and many still hope that our Prime Minister is up to the job but there's always this question: why should his latest promises turn out to be more credible than the ones that he's already broken? Amidst all the self-congratulation about how historic this budget is, you almost expected the Prime Minister to declare that fixing the deficit is the greatest moral challenge of our time.

In his 2007 Budget reply, the then opposition leader, now the Prime Minister said "we must remain committed to keeping taxes low". But he has just increased the cigarette tax and added a new mining tax to the 125 separate taxes that Australia already has.

He said then that a Labor government would withdraw an existing regulation for every new one imposed on business. In office, he has introduced 9997 new or amended regulations and withdrawn just 52.

He said then that he would pursue “a conservative fiscal policy” but proceeded to unleash the greatest spending spree in Australian history, turning a \$20 billion surplus into a \$27 billion deficit in just one year.

The Prime Minister said then that he was committed to “working families hit hard by the cost of mortgage repayments, food prices, petrol...and childcare”. His spendathon has contributed to six interest rate rises in the last eight months, with housing affordability at record lows and a \$4500 a year hit on families with a \$300,000 mortgage.

He’s abandoned his fuel watch and grocery watch schemes, though prices keep going up, and he’s dumped his childcare commitment after building less than 40 of the promised 260 centres.

The Prime Minister said then that the “economic cost of not acting (on climate change) will be far greater than the cost of taking early and responsible action”. As recently as November he said that to delay action would be “absolute political cowardice”, and an “absolute failure of leadership”.

But he now won’t do anything about it till sometime next term for fear of fighting an election on tax. Instead, there’s a different great big new tax that will now be the issue on which the election turns.

Mr Rudd observed in 2007 that “mining booms don’t last forever”. They certainly don’t when governments threaten to kill them with a new tax that will eventually choke the goose that’s laid the golden egg for Australia. Despite its name, this is not a normal tax on super profits. It’s a super tax on normal profits.

Every company extracting non-renewable resources will have to pay an additional 40 per cent tax, as well as normal tax, once its rate of return on capital exceeds the long term bond rate or about 6 per cent. The new tax applies to the extraction of phosphate, sand and stone as well as to the extraction of minerals, oil and gas. It’s a tax on small quarries as well as big miners.

It will impact on the price of fertilisers and building materials as well as on the price of energy. It’s a triple whammy tax on the jobs of half a million mining and related workers, on the superannuation of millions of retirees with mining shares and on the cost of living of everyone who uses power.

It will increase the effective rate of tax on all mining from 44 to 57 per cent. Already, Australia heavily taxes the extraction of resources. The proposed new 57 per cent rate would make Australian taxes the highest in the world.

It’s amazing how quickly BHP and Rio Tinto have gone from being lionized to demonized. The government says that this new tax is needed to stop foreign companies ripping us off. In fact, there would be no wealth to redistribute if those same companies and their shareholders had not invested serious money to turn untapped resources into national wealth.

Imposing a prohibitive rate of tax on returns above 6 per cent sends an implicit message to business people that they would be better off putting their money in the bank. After all, who would bother to take the risks of investing in actual production if there’s an extra penalty on success?

This great big new tax has already put all investment decisions on hold. Rio has said that its investment in Australia will be reviewed. Xstrata has indefinitely suspended new exploration in north Queensland. BHP has raised doubts about new coal mines in Queensland, iron ore and uranium mines in Western Australia and, particularly, the \$22 billion expansion of the Olympic Dam mine in South Australia.

It is hard to overstate the seriousness of this. A 40 per cent tax on so called super profits coupled with a 40 per cent government rebate for losses penalizes good projects and rewards the duds. Perversely, it gives an unfair advantage to projects backed by foreign sovereign wealth funds which won't need to satisfy normal commercial risk assessment. These projects could then transfer price profits out of Australia and sell ventures at a loss subsidised by Australian taxpayers.

By this budget's bizarre logic, putting a new tax on cigarettes means less smoking but putting a new tax on resources means more mining. If this tax is going to be so good for the resources sector, why aren't other industries lining up to beg for a super profits tax to be imposed on them?

The budget formula assumes the best terms of trade in 60 years, assumes that higher taxes have no impact on investment, assumes a 4 per cent growth rate and, presto, the deficit disappears three years early without the need for any hard decisions. If only company promoters could get away with such a prospectus.

Yet if growth really is such a sure thing, why does the government also keep warning that "we're not out of the woods yet"?

A responsible government would understand that it's better to reform your way through hard times than to try to spend your way out of them. Even the worthy-sounding measures in this budget are unlikely to make much difference to the real problems that people face.

The government's savings cameo, for instance, has a person earning just \$40,000 a year putting aside \$50 a week for several years to generate \$20,000 in savings bank deposits for a \$177 a year tax break. No one with any idea of the cost pressures on low income earners would find this very plausible.

More GP "super clinics" sound like a good idea too except that 36 were promised at the last election and only two are actually operational. In fact, fee-for-service under Medicare has already produced hundreds of private sector equivalents and these don't deserve unfair competition from government-funded rivals.

Of course, there should be an electronic health record but hundreds of millions of dollars have already been spent to make this a reality and no more should be spent until it's certain that we're not throwing good money after bad.

Of course, there should be more defence spending but not to produce 1500 more "suits" and 500 fewer "uniforms". In these respects, this budget is more about looking good than doing good.

Before the last election, Labor promised to eliminate wasteful government advertising. Instead, it's eliminated auditor-general scrutiny of government ad campaigns and has just put aside \$74 million for taxpayer funded pre-election blitzes about climate change, the national broadband network and hospital reform.

Then there's the dishonesty of the government's sales pitch. The mining tax was not a recommendation of the Henry review. Henry recommended a replacement tax not an additional one and an offsetting 5 per cent not a 2 per cent cut in corporate tax.

The mining tax does not fund the increased superannuation. That's funded by a separate 3 per cent levy on payroll that will be an additional cost to business or forgone wages to workers.

The mining tax is not an onshore version of the existing resource rent tax on offshore projects. That tax substituted for state royalties which don't apply offshore, was prospective not retrospective, and only cuts in after a much higher rate of return.

If a 6 per cent rate of return is a “super” profit for mining, how can it be just “modest” for the government-owned national broadband network – as one minister claimed - and what other unpopular industries might be the next target of penalty taxes?

It’s true that Australia has so far survived the Global Financial Crisis in better shape than almost any other nation. The issue is whether this success is due to the spending spree of the current government or to the reforms of previous ones; whether it’s due to the government’s management skills or to our resource exports to China? The question, I think, only has to be asked for the answer to be obvious.

There is a low road and a high road to achieving a surplus. The high road is expenditure restraint and economic reform. The low road is increasing taxes and making assumptions about economic growth.

The budget’s projections depend more on the success of the Chinese economy than on any decisions that the Rudd government has taken. In opposition, Labor often accused the then government of riding the China boom.

Say what you like about John Howard and Peter Costello but they didn’t shirk the hard reform and they didn’t need to hit miners with extra tax to generate a surplus. Their surpluses were the result of tough decisions, not new taxes.

Let me make this clear: the Coalition will oppose the mining tax in opposition and we will rescind it in government.

I have one message for Mr Rudd. It’s one he should be familiar with: this reckless spending must stop.

Until Labor’s debt and deficit has been dealt with it’s not hardness of heart but economic prudence to say “no” even to good causes. In other circumstances, you could fund a company tax cut and depreciation allowances for small business but not at the cost of an economy-stopping tax on our most successful export industry.

It would be robbing Peter to pay Paul and playing to the kind of class war envy that Mr Rudd’s Labor predecessors have mostly been too honourable to exploit.

It’s my goal to return the budget to surplus at least as quickly as the government proposes but not the lazy way through a great big new tax that threatens miners’ jobs, retirees’ incomes and everybody’s standard of living.

Fostering a savings culture is important but the government should come clean about whether higher superannuation contributions are to be paid out of workers’ pockets or by their employers. If it means an extra three per cent tax payroll tax on every business, that’s a \$20 billion a year handbrake on economic growth.

The Coalition will spend more on health but only where we’re certain that extra spending will produce extra services. Improved Medicare rebates, for instance, would be a better way than phantom clinics to deliver improved primary care.

I’m happy to let the Labor Party win any race to raise taxes. Taxes and spending will always be lower and government will always be smaller under the Coalition. That should also mean that economic growth will be higher and that the size of government will always be about one per cent of GDP less under the Coalition.

For nine years, I was a minister in a government that delivered lower taxes and higher surpluses because it did not shirk the hard decisions needed to reform our economy. I was part of a government that understood that you can’t spend what you haven’t got and that you can only create real wealth by hard work.

I know, as anyone who has spent time in remote indigenous townships should, that you can't have much of a community without an economy to sustain it.

The first principle of government should be: "do no harm". The Coalition wants lower taxes, smaller government and greater freedom. It wants a fair go for families and respect for institutions that have stood the test of time. These instincts are in our DNA.

The Coalition wants an Australia that is prosperous, united and respected; where families' choices are taken seriously by government; where pensioners and carers are regarded as people who have served and are serving our country; where officials understand that the public are their masters not their servants; where migrants are welcome but borders are secure; where people's taxes give them decent hospitals and proper highways; and where the armed forces represent our country's best values. But we also know that government can't solve all problems immediately and that over-promising and under-delivering politicians are the cause of so much cynicism about public life.

A good cause never justifies wasting money. On coming to government the Coalition would immediately restructure the school hall programme and provide further funding to school communities, not to state bureaucracies. Parents are normally better than bureaucrats at getting value for their school.

The latest industry data suggests that, had parents been distributing the money, they could have obtained almost twice the build for half the spend.

Likewise, the Coalition won't go ahead with the National Broadband Network avoiding the creation of a \$43 billion white elephant. Better access to faster broadband should not mean a new nationalized telecommunications monopoly and Telstra shareholders should not have their assets subject to coerced acquisition.

The former government's workplace reforms went too far but they helped to create more than 2 million new jobs, lift real wages by 20 per cent and more than double net household wealth between 1996 and 2007. We'll seek to take the unfair dismissal monkey off the back of small businesses which are more like families than institutions.

We'll make Labor's transitional employment agreements less transitional and Labor's individual flexibility agreements more flexible. We have faith in Australian workers who are not as easily pushed around and exploited as the ACTU's dishonest ad campaign is already making out.

If elected, we will be faithful to the liberal conservative tradition. But we will strive to be better than the former government, not just a copy of it. We will be a contemporary government, not just a conservative one.

For starters, there'll be a fair dinkum paid parental leave scheme which gives women six months leave at their full pay. That's real time and real money to care for their newborns.

Parental leave is a workplace entitlement not a welfare one. It should be paid for by business but not in way which could lead to discrimination against female staff or hurt small business. Only the Labor Party habitually increases businesses' cost burden and if the current government had not completely blown the surplus it wouldn't be necessary.

But all benefits have to be paid for and the fairest way to have a paid parental leave scheme anytime soon is through a modest levy on companies' taxable income over \$5 million a year. It will be a universal scheme but, importantly, won't mean any extra cost for small business.

The Coalition's paid parental leave policy is good for women who will finally have more realistic choices to combine work and family. It's good for all those families that need two incomes to pay the mortgage helping them when they are most financially vulnerable.

And it's good for the economy which won't lose some of the best workers because they can't do justice both to their jobs and to their families. More freedom for mothers to work, if that's their choice, is a productivity measure not just a social reform.

The Coalition will fight Mr Rudd's means test on the private health insurance rebate because it's yet another one of his broken promises and because strong private hospitals take the pressure off public waiting lists.

It's previously been calculated that every dollar the government spends on the rebate brings more private money into healthcare saving two dollars that government would otherwise have to spend on health. As well, we'll ensure that Medibank Private really is private by selling it and using the proceeds to reduce government debt.

Before becoming Prime Minister, Mr Rudd attacked the "bloating" of the federal bureaucracy but has since added nearly 20,000 to the 258,000-strong Australian Public Service.

To rein in spending, the Coalition will introduce a two year recruitment freeze to reduce public servant numbers through natural attrition. The freeze will apply on an agency-by-agency basis but uniformed and frontline service positions including, for example, the federal police, customs and quarantine, the Australian Defence Force and Centrelink customer service staff will be excluded.

There will be no redundancies but for two years 6,000 bureaucrats who retire or resign each year will not be replaced. This should deliver a modest reduction in public sector numbers without compromising essential services and save about \$4 billion over the forward estimates.

As well, the Coalition would not proceed with the budget increase to the renewable energy future fund and will cut government advertising by 25 per cent. These savings will pay for the Coalition's direct action on climate change policy, the Green Army and the retention of the current private health insurance rebate.

Next Wednesday at the National Press Club, Shadow Treasurer Joe Hockey will announce further measures to reduce spending and to increase productivity including a detailed response to the new spending and new savings proposals in the budget.

The final costing and funding details of Coalition policy will be released nearer the election but all policies will be fully costed and fully funded because the Australian people are entitled to reassurance that the alternative government's promises are responsible and achievable.

The Coalition has changed over the past two and a half years. We've heeded the lessons of defeat. We've learnt from our mistakes.

We know, unlike our opponents, that governments shouldn't ignore expert advice about the lethal dangers of their programmes, shouldn't decide to change the health system without taking the premiers into their confidence and shouldn't decide, with minimal Treasury input, to put a new tax on mining without first talking to the people whose livelihoods are on the line.

The government has changed too. It no longer seems to stand for many of the things it used to, like combating climate change and ending the blame game. Conversely, it does seem to stand for things that no one would once have expected, like a chronic inability to take advice and a dangerous tendency to make policy on the run.

In the end, it's a judgment about who can be trusted with the fate of the country that decides elections. This budget rests on the government's new mining tax and the election should turn on this too.

Australia's future depends on the bulk carriers travelling to Asia just as surely as it once rode on the sheep's back. This election, like the budget, will pit a party that thinks it's reasonable to make Australian miners the world's highest taxed against one that doesn't.

The die is cast. Neither side will retreat. The only way to stop this great big new tax on the people who saved us from the recession is to change the government.

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