The 'right' way to return the Budget to surplus
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One of the principal benefits of that shared belief was demonstrated during the financial crisis, when the Australian Government was able to respond forcefully (and, with hindsight, more forcefully than it needed to) to the threat of a deep recession, without raising questions about the long-term sustainability of its financial position, because previous Australian governments had (unlike their counterparts in most other 'advanced' economies) run surpluses during the more buoyant years preceding the crisis – an approach to fiscal policy first urged by Joseph in Genesis 41.

Contrary to that generally sound principle, the Australian Government has been running deficits in recent years, not only during the financial crisis, but subsequently throughout the biggest minerals boom Australia has ever experienced. Fortunately, Australia's fiscal position is still nowhere near as serious as that of most other 'advanced' economies: according to the most recent OECD estimates, Australia's 'underlying' budget deficit is just below 2% of our national income (GDP) this year, compared with an average of 3.5% of GDP for the OECD as a whole; while our government gross financial liabilities amount to 36% of GDP, compared with 112% for the OECD as a whole.

Nonetheless, Australia's fiscal position is, arguably, on an unsustainable trajectory. The *Mid-Year Economic and Fiscal Outlook* presented by the Treasurer, Joe Hockey, just before Christmas, suggests that, in the absence of any policy changes, the Australian Government will continue to run budget deficits for at least another decade, pushing gross debt up by another 10 percentage points of GDP.

Apart from anything else, that would make it much more difficult for any future Australian Government to respond effectively to another financial crisis, or anything else that threatened to push the Australian economy into recession with serious consequences for unemployment. It would also hamper future Australian Governments' ability to meet the needs of an ageing population, to facilitate the provision of economic and social infrastructure, and to deal with the consequences of more frequent extreme weather events.

Restoring Australia's fiscal position to something more sustainable over time requires the paths of expenditures and revenues to be brought into alignment with one another. At present, they are nowhere near sustainably aligned. On a no-policy-change basis, spending will rise steadily as a proportion of GDP, particularly in an after 2017-18, while revenues will increase more slowly.

The Abbott Government's primary focus appears to be on achieving the goal of fiscal sustainability by slowing the growth rate of spending. And to be sure, there is certainly scope for reducing spending in some areas – in particular, as the Prime Minister has said, where government spending is substituting for things that people "can and should do for themselves". In my opinion, this includes a number of programs which provide cash payments to high-income households.

But many government spending programs – and particularly the ones that appear to be in the 'firing line' in the forthcoming federal Budget – primarily benefit lower-income households, or households with specific needs and requirements. Hence it would be both wrong, and unjust, in my view, for the task of restoring Australia's fiscal position to be achieved by focussing on only one side of the Budget.

Australia's experience of continuing budget deficits in recent years actually owes more to shortfalls in revenue than to increases in spending. Over the past four years (that is, after the two years most directly impacted by the financial crisis), taxation revenues have averaged 21.0% of GDP, 2.8 pc points below their average in the decade prior to the onset of the financial crisis. By contrast, spending has averaged 24.9% of GDP during the past four years, just 0.1 pc point above the average for the decade prior to the onset of the financial crisis.

Despite what is often said, Australia's tax take is not high by comparison with other 'advanced' economies. In 2011, the latest year for which comparable figures are available, Australian governments (including State and local governments) collected the equivalent of 26.5% of GDP in taxes, 7.6 pc points below the OECD average of 34.1%. In fact only three OECD member countries collected a smaller share of their GDP in tax than Australia – Mexico and Chile, both of which are much poorer countries than Australia; and the United States, where in 2011 the gap between revenues and outlays was over 10% of GDP.

Even if one includes 'quasi-taxes' like compulsory superannuation contributions and private health insurance premiums, which fund things that in many other OECD countries are paid for by taxes, Australia's tax take is still relatively low.

Ensuring that the revenue side of the budget makes an appropriate contribution to the task of restoring fiscal sustainability doesn't necessarily require the introduction of new taxes, or increases in the rates of existing taxes.

Australia's tax system is riddled with exemptions, concessions, deductions and loopholes that either consciously or unintentionally favour particular groups of taxpayers, particular forms of income, particular categories of expenditure, particular saving or investment vehicles, or particular types of business organization. According to the most recent *Tax Expenditures Statement* compiled by the Australian Treasury, 29 of these so-called 'tax expenditures' result in revenue foregone of over $100bn annually – including $32bn from the concessional tax treatment of superannuation, $30bn from the exemption of principal residences from capital gains tax, and almost $18bn from exemptions from the GST. Most of these exemptions (although not all of them) disproportionately benefit upper-income households.

One doesn't have to endorse the removal of all of these and other 'tax expenditures' as a way of solving Australia's budgetary problems. I for one am not an advocate of subjecting principal residences to capital gains tax – not least because one would then have to allow interest on mortgages as a tax deduction, and that would almost certainly result in people taking on more debt, and pushing property prices up even further, than has occurred already.

But it seems to me, from the perspectives of both Christian teachings and sound economics, that the case for scaling back the favourable tax treatment of superannuation savings, of trusts, and of 'negatively geared' investments, and for bringing some of the currently-exempt items on which high-income households spend a higher proportion of their incomes on than low-income households into the GST net, is much stronger than the case which has thus far been made for (for example) tightening eligibility for supporting parents' or disability support payments, or for introducing a co-payment for visits to general practitioners.

In budgeting and fiscal policy, as in so many other areas, the end does not justify the means: *how* we achieve the objective of fiscal sustainability, and the effects which our chose means of achieving it have on the poorest and the wealthiest among us, matter at least as much as *whether* we achieve it.