



# Truth bears the cost of budget-speak

## The Modest Member Scott Ryan

**A**pril is the annual pre-budget season, when the newspapers are filled with purported “leaks” about proposed cuts and spending for the coming years.

It is politics before the budget harvest, as speculation and rumours run rife without any consideration of the bigger picture of what the government is doing and the costs of doing it.

Governments run ideas up the flagpole to test public reaction while constantly attempting to lower expectations. They hope that any budget-night surprise is good news, rather than disappointing to voters and interest groups (sorry, “stakeholders” is apparently the correct terminology these days).

For the uninitiated, language involving the budget can be bewildering. A cut in taxes collected is referred to as a “cost”, the same term used when the government actually spends money. A tax increase is described as a “saving”.

Wide claims are made about new programs, from the number of new jobs being created to the number of medical treatments to be provided over years into the future.

Claims are made for years hence with little regard for the fact that estimating revenue and expenditure four years out is far from precise. There is often little public retrospective assessment of the precision of these claims.

Through offering the illusion of being able to precisely cost and predict spending and revenue and

various economic indicators, as well as holding out the hope of patronage or a new program for a particular constituency, the pre-budget season further builds expectation that government decisions are the source of economic wealth.

One of the recurring irritations of what can be described as “budget-speak” is that tax cuts cost the government money.

This particular phrase represents an important insight into the thinking of many of the political class. That tax cuts are described in this way highlights the perspective that the opportunity cost to government of taxes not collected is particularly critical, especially as alternatives are proposed by interest groups that wish the government would not reduce its tax collections.

However, there is little consideration of the opportunity cost to citizens of tax that is collected.

When taxes are increased or introduced, governments want the focus to be on the beneficiary of the new largesse, not those bearing the cost.

Tax cuts certainly represent a reduction in revenue collected by government, but is this a cost in the sense that a private citizen or company might understand it?

After all, if a worker fails to receive a pay rise in a given year, is that a cost to the worker, or simply a pay rise that has not occurred?

Tax not collected is not a cost to the government; it is revenue it does not compulsorily acquire in the first place. But assigning the term “cost” to it implies that there is somehow an opportunity forgone for politicians

and bureaucrats to improve our lives.

Even when a tax cut is implemented and said to cost a particular amount to government, surely there should be some consideration of the gain to the person or company now paying less tax. While it represents a lower revenue level to government, it also represents more of a gain from private activity that is actually kept by the person who earned it.

Yet budget-speak attempts to draw an equivalence between new programs leading to new spending and the government not collecting revenue in the first place.

Compounding this further is the attitude that somehow the government not collecting taxes in future years is also a cost. Surely lowering tax rates this year means that it cannot be a cost in future years, as it will never be collected.

After all, the bank won't let you borrow for your home on the basis of what you predict your earnings will be in four years; it asks what you have earned in the past and what you are earning now.

Every dollar collected by government has a direct opportunity cost to a taxpayer, money that an individual may have spent more efficiently and, probably, to a greater level of personal satisfaction.

To those who say tax cuts cost the government money, remind them it was never earned by the government in the first place.

■ *Scott Ryan is the opposition spokesman on small business and fair competition and a Liberal senator for Victoria.*

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