



Some Stimulating Ideas

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Rather than engaging in a shortsighted and reckless cash splash, the federal government should seize the opportunity created by the economic fallout from the coronavirus to cut red tape, reduce taxes, and deliver reforms that will save the Australian economy from recession and form the basis for prosperity for decades to come.

The Morrison government is expected to announce today an economic stimulus package to offset the economic impacts of the coronavirus expected to be worth up to \$20 billion. In a similar style to the Rudd government's failed stimulus during the global financial crisis, pensioners and Newstart recipients are expected to receive one-off cash payments of around \$500. This is on top of a \$2.4 billion package to deal with the health impacts of coronavirus.

It is likely the Australian economy will go backwards in the coming months and may enter a recession. But this downturn is being primarily driven by disrupted supply chains and cashflow issues facing businesses in the wake of the coronavirus, not lower consumer spending. A big government cash splash is not the answer.



Granted, people are staying home, large public events have been cancelled, and fewer tourists and international students are coming to Australia.

But receiving a government cheque will not mitigate the risk of going to the movies or a restaurant and potentially contracting the coronavirus. The availability of money is not an issue, people's willingness to spend it is.

An effective response requires a focus on the supply side of the economy to keep businesses open and allow them to keep their staff employed.

A cash splash will only add to the \$546 billion government debt, all of which must be repaid by our children and grandchildren. Here are five more effective ideas.

Firstly, cut red tape. The Institute of Public Affairs estimated that red tape costs the Australian economy \$176 billion every year in lost economic output. This is the equivalent to approximately 10 per cent of GDP, which makes red tape Australia's biggest industry.

Every minute and every dollar a small business owner must dedicate to filling out forms brings them a minute and a dollar closer to laying off staff or reducing their wages. This is dangerous, as small businesses account for about half of all private sector employment.

Secondly, reduce the corporate tax rate. At 30 per cent for businesses with an annual turnover of \$50 million or more, Australia has one of the highest business tax rates in the world, one which is well above the OECD average of 23.9 per cent.

The US and the UK have significantly reduced their business tax rates in recent years, to just 21 per cent in the US and 19 per cent in the UK.

To assist Australian businesses, the corporate tax rate must be reduced to a competitive rate below 20 per cent for all companies. This will ease cashflow pressures and enable businesses to invest in machinery and workers. Additionally, it will attract overseas businesses and investment bringing more jobs, higher wages, and greater economic prosperity.

Thirdly, expand the Instant Asset Write-Off. The IAWO improves cash flow and makes investments more affordable by allowing for a higher, immediate tax deduction on new capital investment. Under the IAWO a painter buying a new van for \$27,000, for example, can deduct the full cost immediately, rather than carrying the deductions over five years. This leaves them \$21,600 better-off today, allowing them to hire new workers, pay higher wages, or make other investments.

The IAWO is currently available to businesses with an annual turnover under \$50 million and on investments worth up to \$30,000. By uncapping the turnover threshold and increasing the investment threshold to \$1 million, the IAWO will immediately increase cash flow and facilitate new investment, creating more jobs.



Some reports suggest the government will attempt to stimulate demand, with certain groups advocating for measures targeted at particular subsets of the population. For example, on 9th March Charmaine Crowe of the Australian Council of Social Service argued on Sky News that “the best way to (boost household expenditure) would be to increase Newstart.”

If the government wants to increase demand, they should reduce taxes rather than increase spending.

This means, as a fourth measure, bringing forward the personal income tax cuts introduced in the 2019-20 Budget to take effect immediately. The full tax cuts will mean some 94 per cent of wage-earners would face a top marginal tax rate of 30 per cent or less. This will provide a significant boost to take-home pay, allowing Australians to keep more of their hard-earned money. However, the full effect of the tax cuts aren't due to take effect until 2024-25. The government should instead make them effective immediately.

Similarly, and finally, the government should consider a temporary pause in compulsory superannuation, allowing workers to receive the missing 9.5 per cent of their pay and give them the benefits of higher wages without adding to government debt.

Rather than engaging in another reckless cash splash, the government should respond to the coronavirus challenge by delivering the greatest economic reform agenda seen in a generation. This will save the Australian economy from recession and set the nation up for decades of prosperity and success.

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