



We Cannot Tax Our Way Out Of Debt

Publish Date:

April 2020

These days probably the best way to guarantee the federal Coalition government won't do something is to have Malcolm Turnbull suggest it. So when [Turnbull on the publicity tour for his book](#) raised the prospect of further tax increases on superannuation and investment income, he might well have done enough to ensure they are unlikely to happen. And nor should they.

Jobs and debt are the two fundamental challenges confronting Australia in the wake of the COVID-19 health crisis.

The only way of addressing these two challenges is by getting as many Australians back into work as quickly as possible. Increasing taxes does nothing to [reduce unemployment that will most probably peak at more than 10 per cent](#). Last month, in one week, 780,000 lost their jobs out of a national workforce of 13 million people.

And while tax rises in the short term help pay off debt, in the long term they won't generate the productivity growth required to pay down what could be a total of \$1 trillion of federal government



debt within three years.

To put the federal government's interest repayments on that number into perspective, at current rates of less than 1 per cent on government bonds, the interest cost equates to about \$400 a year for every Australian. If and when interest rates normalise, at say 3 or 4 per cent, interest payments will equate to \$1200 or \$1600 per person to be paid every year for decade upon decade. That soon becomes real money.

Some might say that Malcolm Turnbull and current Labor leader Anthony Albanese have more in common than just the fact the seat in the Federal Parliament the former had, and the latter has, are both in the inner city of Sydney.

Far too much red tape

Turnbull was wrong to float the idea of higher taxes, Albanese is wrong to dismiss the prospect of lower taxes. "What we need to make sure is that arising out of the crisis, we don't have the government go to the bottom drawer and say, 'What we need is labour market deregulation. What we need is more tax cuts' for people who don't necessarily need it," Albanese said yesterday.

On the contrary, these policies have sat in the Coalition's bottom drawer for far too long.

As usual, former treasurer Peter Costello got it right when he warned of the "high-tax cheer squad" who will use the current crisis to permanently lift taxes. As Costello said, far from contemplating tax increases, the Coalition should be aiming to bring forward its personal income tax cuts. And as he pointed out, "the downturn has highlighted how much red tape we have burdened our society with, in particular financial regulation".

IPA research released last month revealed that since the late 1970s, while Australia's population has grown annually at an average of 1.6 per cent, and the economy at 2.5 per cent, federal government red tape, measured by the number of rules imposed by government authorities, has increased by 10 per cent a year.

The battle lines of reform are beginning to take shape, and so far the signals from the Coalition are encouraging.

When the Prime Minister, in ruling out a "coronavirus repair levy", said that "increasing taxes doesn't always grow the economy", he was right. He could even have gone further and said it's a lot easier to find evidence of tax increases shrinking the economy rather than growing it.

Changing the structure and mix of the tax system is important, but it's a medium-term goal for Scott Morrison's next term of government. A 20-year argument about tax isn't going to be resolved in the next six months.



Instead, the beginning of a reform agenda looks like this:

1. Cut the taxes that already exist – by bringing forward the government’s planned personal income tax reduction.
2. Cut red tape (or at least stop its growth) by implementing a 12-month ban on all new federal government regulation.
3. Make it easier for small business to employ workers – by exempting small business from parts of the Fair Work Act.

That isn’t only an agenda for reform. It’s an agenda to provide what Australia needs most at the moment, which is hope for a more prosperous future.

Originally published in:

Australian Financial Review

Original Link:

<https://www.afr.com/politics/federal/we-cannot-tax-our-way-out-of-debt-20200423-p54mks>