

TITLE: Fantasy budget: Richard Denniss would cut from the rich

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My fantasy budget would be one that attempted to match the government's spending to the public's priorities and one in which taxing and spending policies, otherwise known as fiscal policy, was based on a close reading of simple economic theory rather than a quick skim of what's trending on Twitter.

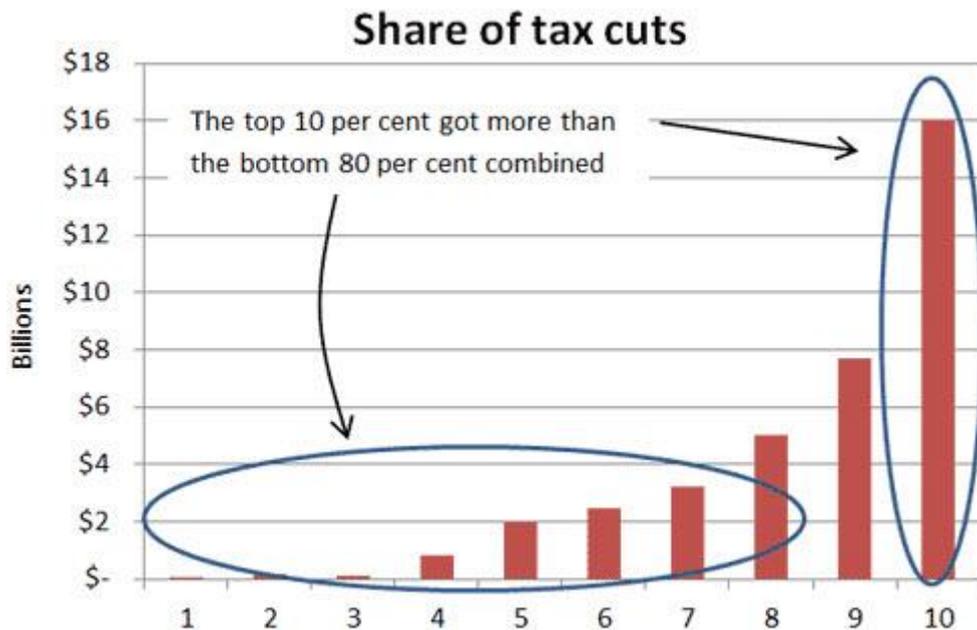
Australia has one of the lowest levels of tax collection in the developed world and, in turn, we have one of the lowest levels of public spending in the world. The public has expressed overwhelming support for increased spending on the National Disability Insurance Scheme, now known as DisabilityCare, but the price of such a scheme is around \$15 billion over nine years.

Similarly, the public is overwhelmingly supportive of the need to spend more on education. The government's proposed Gonski reforms are estimated to cost around \$14.5 billion over six years.

While the Rudd government appeared to significantly increase spending on health, the vast Medicare and public hospital system that serves 23 million Australians gulped it down without even touching the sides. And while hospital waiting lists for elective surgery remain a big problem, the cost of providing health and aged care will gradually swamp whoever is in government unless big changes, and big funding increases, can be made.

Although the John Howard, Kevin Rudd and Julia Gillard governments have all worked hard to pretend that providing better services were their "priority", the last decade of budgets highlights that their real priority was reducing the amount of tax paid by the biggest companies and the highest-income earners.

In the lead-up to the 2007 election both John Howard and Kevin Rudd promised big cuts to income taxes, mainly for high-income earners. According to modelling conducted by The Australia Institute using NATSEM's STINMOD, if our leaders had left the tax rates unchanged at their 2005 level then this year we would have collected around \$39 billion more in additional revenue. The modelling also shows that the top 10% of income earners received a bigger share of those tax revenues than the bottom 80% combined ...



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Of course it is not just big cuts in the income tax paid by the wealthy that have put the budget "under pressure" -- there is the enormous cost of the tax concessions on superannuation, the decision to tax income from capital gain at half the rate that ordinary income is taxed and the rise and rise of the cost of tax concessions and subsidies to profitable industries such as mining and unprofitable industries such as logging.

Australia is one of the richest countries in the world living at the wealthiest point in world history. We can afford to do anything that we want, but we can't afford to do everything we want. If we wanted to spend more on health, education and transport we could. The fact that we don't is proof either that we as a community don't want to or that our elected representatives aren't listening to us.

But it is not just the public that our leaders don't listen to. Contrary to popular belief, they don't listen to economists that much either. While of course it's hard to generalise what an entire profession thinks about anything, it's pretty safe to say that the vast majority of academic economists (as opposed to the ones who are paid to hold their views strongly) would agree with the following:

- The government gave away far too many free pollution permits as part of its emissions trading scheme and could efficiently and equitably raise money by giving away fewer.
- Giving "tax incentives" to do something that is compulsory like contribute to superannuation seems a bit odd and you could raise a lot of money by giving away less.
- Taxing income from capital gain at half the rate of tax paid on ordinary income is both inequitable and gives people an incentive to spend a fortune on accountants and lawyers trying to "convert" ordinary income into capital gain. Scrapping or reducing the tax concessions for capital gains could raise a lot of money.
- Repeatedly ignoring advice to charge trucks for the damage they do to public roads means that too much freight is moved on roads and not enough is moved on rail. Rather than collect the money needed to repair the roads from the trucking

companies, ordinary taxpayers instead foot the financial bill as well as share our increasingly crowded roads with more and bigger trucks.

- Subsidising the use of fossil fuels while simultaneously taxing them is as expensive as it is inefficient. Removing such subsidies would both collect significant revenue and help to lower the cost of reducing greenhouse gas emissions.

The widespread removal of bizarre, contradictory and inequitable subsidies and tax concessions would both increase the efficiency of the tax system and the economy as a whole while generating substantial amounts of additional revenue. Furthermore, if the government would simply restore the levels of taxation paid by the wealthiest Australians to their 2005 levels they could raise tens of billions of dollars in additional revenue.

My fantasy budget would simply link what governments say with what they do. If helping the majority of "working families" is their priority, then they would implement measures such as those described above and use the money to provide the support and the services that the vast majority of Australians say they need.

But if helping the wealthiest 10% of the population increase their disposable income is their priority then they should leave things pretty much as they are. That is, they should keep pretending that services for the majority are a "priority" while delivering huge windfalls to the wealthiest minority.

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