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TITLE: **Keep calm, it will be AAA-OK**

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Tax is the price we pay to live in a civilised society. It is what funds our health system, our education system and our public transport infrastructure. Tony Abbott has just asked the head of the Business Council of Australia to advise him on how much we should spend on those things.

Not surprisingly, the peak body for corporate Australia thinks we should spend less on the things that make Australia one of the best places in the world to live.

Of course, they aren't silly enough to come right out and say their shareholders would prefer us to have poorer quality services so they can pay less tax. Rather, they simply play to Australian insecurities by telling us our tax system makes us ''uncompetitive''.

Here is how the story goes. If the big mining companies or the big banks are asked to pay a bit more in tax, they will take their bat and ball and go home.

Sure, we could tax them more, they taunt us, but if we do they will leave us alone and no one else will play with us. Yeah, right.

If our politicians were secure enough to call their bluff they would quickly find the miners and the bankers aren't going anywhere. The miners are here for our resources, not our tax rates.

While we are one of the lowest taxing countries in the developed world, there have always been developing countries with lower taxes. Strangely, the miners have been operating here for a century.

The big four banks make up half of the eight most profitable banks in the world. In fact, when our banks try to expand offshore they typically lose money and come rushing back to Australia to gouge us some more.

But imagine if the big banks did ''leave''. What would happen? Would they take all of the money with them? Or would the smaller banks, credit unions and building societies that offer lower fees and interest rates step in and fill the void with better service at lower prices?

If the miners stopped investing in new mines then the exchange rate would begin to fall back to its historic levels, manufacturing, tourism, education and agriculture exports would expand and the world would keep turning, albeit with significantly lower greenhouse gas emissions

While economics textbooks make it clear monopolies and oligopolies will exploit consumers and are best avoided, these days our leaders seem convinced that the more market power our big companies possess, the better.

While the textbook notion of a "competitive" industry is one with lots of small suppliers who drive each other's profits down as they compete for new customers, the modern Australian notion of a competitive industry is one with a couple of price-gouging giants making world-record profits.

Clearly both definitions can't simultaneously be meaningful, so what has happened?

Competitiveness used to be defined in terms of what was good for consumers. Indeed, the textbooks talk about "consumer sovereignty", that is, the consumer is king.

When viewed from the perspective of the consumer, lots of small firms with no market power competing to offer products at the lowest prices are likely to offer the best, most competitive, outcome.

But what if we look at it from the shareholders' point of view? All that competition might be good for consumers, but what about the poor shareholders?

That is where Tony Shepherd comes in. It is his job to represent the interests of the main shareholders of our large companies and Tony Abbott is now paying him for advice on what is best for the country.

In fact, not only is the taxpayer paying a sectoral lobbyist to chair his Commission of Audit, we are paying the BCA's head of policy to oversee the secretariat of that commission.

Let's assume the chief lobbyist for big business is willing to put his country's interests ahead of his clients' interests. What should he do to help solve what Mr Abbott calls our "budget emergency"?

The first thing he should do is tell our new government to calm down. He should report that Australia has among the lowest levels of tax and net public debt in the developed world and is one of a handful of countries to have a triple-A credit rating from all of the main ratings agencies.

The next thing he should do is to propose simplification of the tax system. This can be achieved by removing the wide range of expensive and inequitable tax concessions and loopholes that advantage some companies and some industries over others.

Even during the peak of the mining boom the taxpayer was spending billions of dollars a year on tax concessions and subsidised infrastructure for the mining industry.

Similarly, John Howard's unexpected decision to halve capital gains tax has created far too much paperwork and leads to the bizarre situation where a person who makes a $50,000 capital gain pays half as much tax as a person who works full-time to earn the same amount.
Then there is superannuation. While the scheme was originally designed to "take pressure off the age pension" it has been a hopeless failure in that regard.

Despite the fact the annual cost of tax concessions for superannuation will reach $40 billion next year, the cost of the age pension continues to rise.

The problem with superannuation is that over time, it has accidentally evolved into a highly effective tax-minimisation vehicle for the very wealthy.

Indeed, there is at least one self-managed superannuation fund containing $100 million, which means that one lucky family would be able to draw out around $10 million a year, tax free. The idea that such a system is taking pressure off the age pension system is simply laughable.

Tax concessions for superannuation are the fastest-growing item of government expense.
If Mr Shepherd is serious about improving the structural position of the budget he couldn't possibly do anything other than suggest large-scale reform.

Given Treasury tells us that the top 5 per cent of income earners receive 30 per cent of the benefit of the superannuation tax concessions, surely an audit conducted in the national interest, rather than the interests of big shareholders in big companies, would seek to remove such an inequity.

Finally there is the growing evidence companies such as Google are using sophisticated offshore tax-minimisation strategies to avoid paying their fair share of tax in Australia. It is harder to hide loopholes and evasion in a simpler tax system.

It is only fitting that a new government would seek to find ways to improve things, and a Commission of Audit isn't a bad place to start.

But a Prime Minister who was serious about "governing for all", should take advice on something as fundamental as our tax and spending policies from much broader sources than big business.

Mr Abbott has declared Australia "open for business", but should we really be shutting everyone else out?

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