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Expenditure and Revenue: You Can't Have One Without the Other



Thanks very much Ebony and that was a great line in relation to Liz Truss. Well done and also a great welcome to country with a few little extra well made points as well. So well done there also. So I think we can actually rename today's summit rather than a revenue summit. I think it's what do we want Australia to be summit is what we should be calling it.

I know that's a bit wordy, but our political debate always favours low taxation and what we've got to point out is that that also comes with a low government expenditure and we have to keep asking the question, is that what we want? Now, just to make the point that you can't separate expenditure from revenue, of course you can on a year to year basis.

But at the moment Australia has got a very strong terms of trade. We've got low unemployment. We of course should be running surpluses, but we're running deficits. You just can't keep running. You can finance a deficit either by borrowing, in which case the interest rate burden will build up on you and clobber you at some stage. Or you can print money.

But if you want to run the economy at full employment, which we do, then you can't keep printing money because that's going to cause inflation. So yes, year to year variation, but if you want to spend extra money, you're going to have to raise extra revenue. There's just no avoiding that. Now, as I think everybody said, we are a low tax country.

We're about six percentage points below our tax. The GDP is about six percentage points below a six percentage points of GDP below the developed country average. It's not just our tax revenue that's below obviously, it's our expenditure levels that are below the average of developed countries. This

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is a you can't separate them out. And so again, is that really what Australia wants is the question we have to keep posing.

So today I'm going to talk about three things. I'm going to talk about some reasons why I think we need higher taxation, why I think it's unavoidable. I'm going to just very quickly deal with some arguments that people raise about why we shouldn't raise taxes and counter those. And then I'm going to talk about the fact that while we have fairly well maxed out at income taxes, there's a range of other tax places that we can easily use.

And I'm going to explain why I think they're good basis to use. So I'm just going to run through three reasons, and I'm sure everybody in the room is going to post more, but three reasons why I think we need higher taxes. I used to get well, I still do get very irritated when I listen to ministers. This is pre-COVID telling me this is state government usually that we can't get enough nurses, we can't get enough aged care workers, we can't get enough teachers.

And of course, if you're a nurse or a teacher, an aged care worker, fundamentally you're only working for one employer, which is the state government. So there's really no competition to hire nurses and teachers or aged care workers ultimately, because the funding comes from one source. In my view, those governments have actually made a decision not to hire more nurses and teachers and that they've made that decision.

So don't pay a high paying, higher wages. I mean, it is intensely irritating to have the employer say, I can't find extra workers when they're not willing to pay them more. I mean, we live in a market economy. This is blatantly absurd. So, you know, in both the education and caring sectors, we are paying below market rates. That's why we can't get people.

I know there's a labour shortage generally. Now I get that. But if you go back in time, this argument has been going on forever. Now the Australia Institute basically did some pretty basic research for me, which showed that it was very clever research. Math are not basic research that a school teacher with 10 to 20 years' experience and about \$89,000 a year, a tax lawyer, very relevant for today, I think with 1 to 3 years' experience and \$136,000 a year and of course, the wage only takes off after that.

And of course, you could make the same comparison with childcare workers, health workers. So we are clearly signalling where our priorities are. Right? Low priority for education, health, aged care, childcare, because that's what we're doing through the wages we're offering. Again, I emphasize without any competition for labour. Right. You've got a few basically got what economists call a monopoly.

I always have trouble pronouncing that. I don't know why I introduce the word, but one buyer of the services, they just unilaterally set the wage and they have set it too low. So we're really clearly signaling our priorities. And, of course, the fact the fact that most of these workers are female ranges, it raises a whole lot of other issues.

The second reason why we need to spend more is the transition to a low carbon economy. Now, the size and speed of our ambition there needs huge investment by the public and private sectors. It just won't happen otherwise. And we won't be able to do that unless we have extra taxation. And the third reason is that we do actually need to pay down the debt that we have at the moment.

Now, I understand many would say that debt from all levels of government, which is about 40% of GDP or heading there, is lower than most other countries. But as Ross Garnaut has said recently, we

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need low debt so that we can have a lower cost of capital. But we also need low debt so that we have the strength to survive the various levels of uncertainty in the world at the moment and the world is a very uncertain place at the moment.

So we need to get back our strength of low debt, both of lower our cost of capital, and to be resilient for the shocks that are going to come our way. Now, Philip Lowe, the governor of the Reserve Bank, said, look, if you want to lower debt, if you want to spend more money in various areas, you've only got three options.

Then of course he's right. It's the complete set of options. You can either cut expenditure elsewhere, you can increase productivity and grow the economic pie or you can raise taxes. Now I just think it's fairly clear that we cannot reduce expenditure in other areas to offset the expenditure pressures coming. That is, you just can't have the same expenditure level and meet the pressures.

So yes, you can save money in a whole range of areas, which I imagine is coming in the budget on October the 25th. But those nips and tucks won't be enough to fund the things I've mentioned, much less the ideas I'm sure everybody here has. So I don't think cutting expenditure elsewhere is going to do the trick. And I think that's really self evident in terms of growing productivity.

We're basically doing the opposite. The only way you encourage productivity is by increasing competition in the economy to get the dynamism. We're actually doing the reverse. So we've got a productivity problem. We're not undertaking the right policies to promote productivity. But look, I have to say, even if we were, that takes time. So you're left really with one option in the Philip Lowe framework, and that's to raise taxes.

It's really hard to avoid that conclusion. Now, there's a couple of false arguments I'll just deal with very briefly. You often hear hear it say that. Well, if you raise taxes, that damages the economy. Well, it's just not so. I was at a conference in Paris listening to Thomas Piketty, and I thought I'd just throw that into the conversation.

But he had this he had this lovely graph, and it was from a selected European countries. It was just terrific. So it showed in 1900 you had tax revenue and expenditure as a percent of GDP. I don't know, eight or 9% of GDP. And then you bring it to around about now and it's 47% of GDP and he's saying that prosperity has gone through the roof since 1900.

It obviously that is higher taxes that we needed. Haven't said is to hell in a handbasket I mean and of course he points out it actually helps to have a healthier population, a well-educated population, a more efficient delivery of a whole range of services. So the idea that rise in raising taxes corresponds to a weakening economy is just to put it at its best.

Not so. I mean, actually, I would put things another way. I think, you know, if we want to improve productivity, we've got to increase competition and dynamism in the economy. But I think also the other lever we've got to pull is to increase our improve our education, improve our health system, improve our childcare system. So, you know, many speakers today are going to be talking about increase in government expenditure to get a fairer society.

And that's that's that's excellent. And I quibble with that. But I think also you can increase government expenditure and help deliver greater prosperity for Australia as well and we shouldn't lose sight of that. The other point I'll just deal with very, very briefly is the comment often made that why should we increase government expenditure? There's too much waste in government expenditure already.

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Well, look, there's waste in every expenditure program, be it by the public sector or the private sector. I mean, I've been in the private sector a long time. They build things, they have overruns, they build billing systems. I completely have to ignore them and walk away with tens of millions of dollars spent for nothing gained. So you always have some waste in government programs, particularly in government programs where you've got a very wide range of objectives, which means one person's waste is another person's.

Actually, we needed to do that. But the point is, yes, if you've got real problems with a sector, fix them before you put money in. But don't use this waste argument as a general reason not to increase government expenditure. That is simply a way of raising the hurdle bar to a level that, you know, it can't be met.

It's not actually a real argument. So my final point and so my little top panel, so going here, very good. I think I'm in Australia probably has give or take a bit maxed out on income taxes. So I want to talk about non income taxes today. We get about, as I said, 70% of our tax from income taxes.

But we have a range of other bases that we can use. And I'm just going to talk about five. I want to start firstly though, as one of those five just making sure that we really need to put the effort to stop tax avoidance by multinational companies. And look, it is pretty dreadful. And so a lot of people coming to this debate don't really have very clean hands.

I mean, you have the example of sitting up artificially in a tax haven, borrowing money at 1% in the tax haven, lending it to an Australian subsidiary at 10%. Of course you make that 9% in the tax haven, but you don't pay any tax on that, but you've actually wiped the profits from the Australian subsidiary so they don't pay any tax in Australia.

I mean, quite a deliberate strategy. There's no other reason you're doing it, but to minimize your tax. It's completely artificial and it's completely immoral. The other one that's often used is marketing fees where the company providing the marketing services will get an arm's length transaction with an absolute minnow and use that to convince a court that that level of payment for marketing is appropriate.

When the Australian subsidiary could get the marketing services at a fraction of that price because it's huge and the company you set the arm's length price on was just a minnow. So the ATO does a great job in dealing with that. They're really chasing it down ferociously. They're pushing for changes of law and we have had good changes of law, but we need more changes.

And look, if you're interested, I've written a speech which I'm obviously paraphrasing today, and I hope it'll be on the website, the Australia Institute website. Yes. Thanks, Ebony. So it's got some thoughts on how we could fix that up, but I won't go into that today. The second area where we can raise money is just by increasing by basically taxing the economic rents of mining and petroleum companies.

Now you've had, I think, quite unusually, the Secretary-General of the UN, Antonio Guterres, saying that countries need to tax the excess profits that are being made as a result of the Ukraine war. They need to tax those excess profits from the oil and gas companies. You've got the European community actually doing it. So they are raising a tax that, you know, wasn't there before.

And so I really think it's you know, I've been giving advice on a whole range of things all around the world. I think it's only small, uncertain economies that put this total focus on sovereign risk, that you

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can't change any established tax arrangements because you run into sovereign risk issues. But we don't talk about sovereign windfall gains. So, you know, we have a petroleum resource rent tax.

It is clearly flawed. We used to have carry forward of losses at 15 percentage points above the long term bond rate. The previous government changed that to 5% above the long term bond rate, but there's still this block of carry forward based on the 15%. It is clearly excessive and we need to cap that carry forward I think now so that we can get more petroleum resource rent tax from the oil and gas companies.

And again in the speech I've gone to how we should do that. But capping the carry forward is not an unusual thing to do. Australia has generous, carry forward provisions. It would not be in any way punitive. All it would be doing is bringing forward revenue and allowing those tax losses to be carried forward at 5% above the bond rate.

So not at all punitive but would yield us a lot of money. Now I also think we need a mineral resource rent tax. Now I know there's been previous efforts, but the same logic applies. I mean, basically, you have resource rent taxes because you have minerals, petroleum gas that is subject to widely fluctuating prices, very different cost structures depending on how excessive all the resources.

So if they have a windfall gain and therefore earn returns greater than what they ever expected when they did the investment decision, then that's the time you share those gains with the Australian population. I mean, basically all we get, I mean, look, there's always employment associated with mining and petroleum, but not much compared to the revenue. The essential gain we make is through taxation and we need a fair share of these windfall gains and so we should be taxing these resource rents appropriately.

The economic logic for it is impeccable and it's no argument from any economists that that's what we should do. But I think that's the so we should do it. The third one I want to talk about is a carbon tax. Now I know that has a rather bad name, but it is just obvious. It is just completely obvious.

We need to change behavior if we're going to meet our carbon targets. We need to change relative prices so that those engaging in high carbon activity are paying more than those who engage in low carbon activity. That's the only way we're going to meet our carbon objectives. Of course, you could change those relative prices through giving subsidies, but we don't have the fiscal capacity to do that.

And by the way, you know, we do give that's a pejorative term subsidies and people will query that. But, you know, there's there's there's talk of thank you for the 5 minutes. There's talk of, you know, we subsidize solar panels that largely favored higher income people. There's talk about what we do with electronic vehicles. Only high income people can afford them.

They're very expensive. I know. I own one. So, you know, if we want to do this, get the carbon transition in a progressive way, have a carbon tax, there's money to make sure that lower income earners aren't worse off. And there's money then to help us with the carbon transition paid for in a way that is sensible and efficient.

It is a frustrating debate. There's a whole lot of people saying they want action on climate change. And then as soon as someone mentions a carbon tax, that's just dreadful. Well, that's not going to work. The transition was never going to be costless. It's not going to cost us that much. And in the long term, nothing but. But we need to introduce a carbon tax if we're going to make that transition.

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And we can't run away from that argument.

I do want to talk about land tax. I think that is also a very good idea. It can both replace stamp duties and raise a lot of money. All experts in taxation agree that land tax is a great base. It's quite progressive because you've got, you know, property owning is goes up with income people who don't have much income don't have much property, if any.

It raised a lot of money. There's a 5000 billion tax base there. If you tax it at 1% and I'm not suggesting you do, that would raise 10% of all taxes in Australia. So it's a very rich tax base. It's a simple tax base. If the states and territories did it in a coordinated way, not with it fighting with each other, that would give them a lot of money.

After all, they fund health and education. Just very briefly, on on roads, as my last area and again, this will be a bit controversial, but we currently pay for roads through fuel excise as electronic vehicles come in, people like me on paying for the road. Only people who are driving combustion engine cars are paying for roads. We have a great opportunity to change how we pay for roads.

We can do it through congestion charging. We can do it through charging trucks more because they're the ones that weigh most and cause damage, most damage to the road. A long story, but again, last time the congestion charge was put forward, it was knocked down. Within 2 hours. It just sunk. And it's an excellent micro reform. It would mean we're spending less money on roads and it would mean we aren't going to be in the anomalous position where people driving electronic vehicles and after all, they will be I mean, everybody soon will be driving, which soon is.

But a lot of people are driven on. They go like a rocket and they are combustion engines are old technology. And so who's paying for the roads? If it's not the drivers, it's going to be the general taxpayer. And that's not fair. Look, let me conclude by just making a few points. We have to stop. We can't be having these debates about tax in an isolated way.

Obviously, if you ask somebody, would you like to pay more tax, you'd be mad if you said anything other than no. But if you say, here's what we're going to spend on education or health or childcare and here's the tax that's going to be paid for it, they're a package then people are going to reflect, and that's the only way we can have these discussions.

So the same with the carbon transition. It's clearly the case that we can't achieve it without the carbon tax, in my view. And so we need to have that discussion in the right framework. But my key point is what we find these days is issues get raised, they get put on the table. There's an immediate negative reaction and the idea gets dropped.

Good ideas. Policy reform only ever comes when somebody sort of tilling the soil, preparing the ground for the idea. The idea gets put out there. It's then debated and it's persevered with it needs time from politicians. It needs time from the public. I think using arguments like, well, social media, the 24 hour news cycle means you just can't run good arguments these days.

I mean, forget it. That's a cop out. If you want to get reform change, you can you've just got to put the time in and thanks to the Australia Institute for letting us all do that today. Thank you.

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