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Election Spending Will take toll On Our Pockets

Even with the Federal election still at its phoney war stage we can already see what assaults on our pockets that the next two months will foreshadow.

To shore up its support base Labor wants to:

- spend more on teachers and people with disabilities;
- have a royal commission to force banks to lend to those with substandard credit;
- leave the unions beyond the law thus ensuring cost premiums which are 30 per cent on construction costs;
- triple the price of electricity by requiring a 50 per cent renewable share.

Conscious that government spending remains well above the “emergency” levels introduced in 2007 and that some of these plans will require tax increases in addition to the increased regulatory induced costs, the ALP is proposing to:

- increase business taxes on multinationals;
- levy a special tax on those earning more than \$180,000 a year;
- tax superannuation;
- introduce higher taxes on capital gains;
- abolish negative gearing on housing investments; and
- increase tobacco taxes.

The first four of these would bring about lower savings and investment – the basic drivers of living standards – with detrimental economic outcomes.

The Coalition is also heralding cost impositions, though on a more modest scale. It has already agreed to damaging increases in electricity costs with expensive renewables and other energy policy measures. And Mr Turnbull is looking to follow the ALP’s soak-the-retirees superannuation taxes.

All parties see Defence expenditure as fundamentally a means of creating unproductive jobs. The submarines will entail a premium cost of over 30 per cent for equipment that is inappropriate for Australia because nuclear subs are ruled out on ideological grounds.

Sadly, present day productivity sapping policies involve governments taking money to win political patronage. Contemporary election campaigns are all about spending more money to galvanise support, often disguising the costs by using regulations, and claiming that the effect will merely hit big business, the rich or, in the case of smokers, a guilt-ridden minority.

Such policies are in sharp contrast to those which shaped the modern world, which, from Magna Carta in 1215 through to the English Civil War in the seventeenth century and the American and French Revolutions in the 1780s, were all about tax revolts.

In these great events, the people paying taxes – landowners and increasingly businessmen and merchants – wanted to curb government spending. The outcome, together with relaxed trade and regulatory controls, brought the modern era of prosperity that is unprecedented in world history.

In fact the detrimental effects of tax, regulate and spend policies are not confined to the immediate losers. They hit us all and have progressively more debilitating effects on prosperity.

Tax, regulate and spend measures, with occasional respites, have been increasing for decades but have been intensified since the onset of the “Great Recession” in 2007. In the years since then additional spending has taken resources from wealth creators and distributed it to wealth consumers. While the government takes 40 per cent of the nation’s income, some 40 per cent of families pay no net tax. And many more are seeking to join that throng!

Additional spending has cannibalised savings in economies across the world, with Australia having been temporarily sheltered by the impetus of the mining boom. Unless policies are reversed, stagnation or worse is inevitable.

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