SPECTATOR AUSTRALIA
FLAT WHITE

Australia: suffocated by regulation and raided by greedy politicians

Alan Moran

Getty Images

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Gary Banks in *The Australian* notes how government regulatory measures are destroying our vital comparative advantage in energy supply and promoting inefficient labour relations practices, while spending splurges have brought no improvement in outcomes, especially in health and education.

Years of over-regulation and excessive spending have been pushed even higher by Labor. The Commonwealth Government has to maintain the momentum of carbon abatement by massive new regulatory impositions on the major carbon dioxide emitting firms and forcing consumers to fund new spending in the transmission lines for wind and solar.

And due to years of government over-spending, Labor has to plug a gap of at least $50 billion a year between its spending and revenues. The alternative is to run budget deficits but that means printing money, increased inflation, and the Reserve Bank insisting upon unwelcome interest rate increases.

The Albanese government is unable to bridge the gap between its spending and revenue by reductions in spending as this would antagonise its support base. Nor is there much scope to raise revenue through taxing business – and while the Treasurer is considering a super profits tax on minerals he is facing a capital strike response threat from BHP among others.

Taxing savings is therefore the Albanese government's preferred solution. This is partly because these are in the hands of people who tend not to vote for them. But in addition, savings are thought of as being funds hoarded in hollow logs and irrelevant to income growth – and, indeed, many regard savings as being consumption foregone and therefore detrimental to income growth. For socialists, previous Coalition Treasurers, and recent Treasury luminaries savings detract from rather than constitute the backbone of living standards. As with the response to Covid, injections of consumer spending are, in their view, often necessary to get income levels rising. Not for them the old-fashioned cold-hearted economists' view that we need a greater supply of goods and services before that supply can be increased!

Hence, for those who see economic growth as being on some sort of auto-pilot, the higher taxes on savings provide funds for politically attractive spending at little political cost and with, at worst, little effect on living standards.

The government is sifting through the so-called 'tax expenditures' to find candidates from which to extract greater revenues. Thousands of 'tax expenditure' measures remove tax on income that would otherwise be unfairly, inefficiently or unproductively loaded with imposts. They are estimated by Treasury which sees all income as legitimately belonging to the government, to cost some $250 billion a year!

If these 'concessions' also detract from equity or efficiency, a view shared by many politicians, they are irresistible 'honey' that over-generous governments have allowed their subjects to retain. As such, they can be used to finance spending schemes that promote the visions of politicians themselves and to please people into voting for them.

It was therefore inevitable that a government that is contemptuous of income earned other than in the public sector would turn their attention to the 'tax expenditures' that accrue overwhelmingly to those in the private sector. The largest of these are capital gains and rental deductions for houses ($72 billion) and 'concessionary' tax rates for superannuation funds ($45 billion) and for trust funds ($24 billion).

And so, we have the raid on superannuation funds, which the present government no longer regards as a Keatingesque anchor for the savings and hence investment capital on which future incomes rely. The damaging effects of that raid in reducing capital for future investment are compounded by requirements the funds' outlays be diverted into unproductive social and environmental expenditures. Of course, the public sector's equivalent of superannuation, a 'defined benefits' pension that is unconnected to superfund investment earnings, is left untouched by these measures. So, there are members of the public sector and political class with a *de facto* untaxed super funding equivalent to over $10 million – far in excess of the $3 million claimed to be required for the comfortable and dignified retirement of lesser mortals.

Even so, as attested to by the weekend's political research, retrospectively taxing savings of 'the rich' and prudent who have over $3 million is widely supported. Voters however draw the line at government theft of their own assets as the Treasurer learned when he flew a kite with a view to taxing the 'concessions' given to capital gains on housing.

Gary Banks argues, the problem stems from Australia's politicians' 'inability or unwillingness to properly make the case and get the public on board'.

Perhaps. But if so, it is an affliction common to all the world's democracies, all of which are pursuing similar self-destructive energy policies, amassing huge budget deficits, and in many cases taxing income-generating savings. Politicians the world over, with hardly any exceptions, adopt the measures necessary for them to remain in power rather than bucking political opinion.

Ancient Greeks like Plato, Aristotle, and Aristophanes recognised that democracy can easily become a shroud hiding wealth-undermining expropriation and other reactions that are inadequately understood. Recognising this, the political leaders who designed modern constitutions included impediments to prevent 'rule by consent' reverting to populism. But these restraints have been steadily eroded. They now need to be restored but there is no constituency supporting this and little thought into how it might be done.