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FLAT WHITE

Plucking the income goose

Alan Moran

Getty Images

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Jean-Baptiste Colbert, Louis XIV's celebrated Finance Minister, is reported to have said, 'The act of taxation consists in so plucking the goose as to procure the largest quantity of feathers with the least possible amount of squealing.' Populist politics suggests that policies which allow high earners to keep more of their earnings are always electorally risky, even though such policies have long-term adverse effects on wealth creation.

So, the Labor government has abandoned the Stage 3 tax cuts, which it supported six years ago whilst in Opposition. This was to have removed some of the bracket creep caused by inflation which pushes taxpayers into higher income tax bands. The proposals would have raised the incomes covered by the second top tax rate of 30 per cent from $180,000 to $200,000 a year. Judith Sloan shows that restoring the rate to its 2007 level would actually have extended it to those earning up to $250,000. But, paving the way for the change, the usual insider media groupies started to discover its 'vast cost and … inequity' from permitting people to keep for themselves more of their income.

Labor now claims the advice on abandoning the correction to bracket creep came from the Treasury.

Perhaps so, since that once praetorian guard against government profligacy has long been stacked with big government green socialists – the current Secretary, having been appointed by Scott Morrison, progressed through the ranks via the Garnaut report and the Department of Climate Change. The long gestation time between 'legislating' and actually applying the now-deceased Stage 3 indicates it was always there in the hope that something would turn up to make budget decisions easier. Hence a Morrison-Frydenberg government might have been as receptive to its termination as that of Albanese-Chalmers. It would have taken a 'courageous' Dutton Opposition to opt for the previously planned cuts and not further tax reductions for people earning less than $180,000 a year. This is especially clear in light of AMP research showing that only 20 per cent of income earners actually pay more in taxes than they receive in benefits and those earning over $180,000 a year represent fewer than 4 per cent of income earners.

But ‘plucking the income goose’ ought not be the main objective of budgetary reform. More important is cutting spending to make room for more efficient individual spending and getting the government out of the way of business.

The May 2023 Budget’s projected government spending was 26.8 per cent of GDP for 2024-25. That share has zig-zagged up from under 20 per cent 40 years ago. Two decades ago, the leftist media charged the Howard-Costello administration with excessive parsimony but its last Budget in 2007-8 left the Commonwealth government spending share of GDP at 23 per cent. Subsequent governments once again released fiscal indiscipline. Getting the spending share back to its 2007 level would save nearly $100 billion, or four times the revenue from the ‘legislated’ stage three tax cuts.

However, budget accounting vastly understates the growth and cost of government. Saxon Davidson has shown how Commonwealth regulations have increased by 88 per cent since 2005, which is two-thirds greater than the overall growth in the national economy since 2005.

These regulations impose additional cost burdens on a private sector that is overwhelmingly responsible for income generation.

The direct costs of energy market regulations alone – comprising requirements on energy retailers and individual users to take ever-increasing supplies of expensive wind/solar – are of the order of $10 billion a year, and indirect costs are multiples of this. The Albanese government is turbocharging these costs with near-weekly announcements of additional measures. The latest of these is a new de facto motor vehicles tax, which requires car retailers to weigh their sales in favour of more fuel-efficient, higher cost cars. Aside from the fact that this may not work, it is a nanny state imposition by an elitist government that thinks consumers are under-equipped to make their own trade-off decisions between the initial price and running costs.

Other sectors face additional imposts. The burden of labour market policies, and the multitude of environment, heritage and Indigenous-oriented rules, especially on mining and agriculture take a tremendous toll on income levels which would, with a lesser level of intrusion be the highest in the world. But this is frustrated by the professional political class, its bureaucratic support, and a conga-line of those seeing greater value in getting government favours and to redirect money away from those earning it.

And the political system is seemingly loaded in their favour with 96 per cent of income earners being short-term net beneficiaries of income redistribution (aka government theft and voter bribes). Over the longer term such redistributions adversely affect economic growth and income levels in general but – think Argentina – it can take a century for this to become so obvious to electorates that they ‘vote the bums out’.