Taxes Higher Under Howard

18 April 2012

New figures show a sharp fall in tax revenue under the Labor government - but don't expect that to hit the headlines any time soon. Ian McAuley has the stats on the Government's hand in your pocket

Australia came out of the global financial crisis largely unscathed, thanks to the Rudd Government's rapid fiscal response in the form of public spending. Depending on whether your views are shaped by the Murdoch Press or by economists such as those working at the IMF, this was either an irresponsible waste of the Howard government's surplus or a sensible Keynesian stimulus.

That's the general perception, and there was indeed a spending stimulus — who can forget the school building program for example? In 2007-08, just before the GFC hit, under the last Howard budget Commonwealth spending was 23.1 per cent of GDP. In the following year, as the newly elected Rudd Government responded, spending rose to 25.2 per cent of GDP, before falling back 24.7 percent of GDP in 2010-11.

Most of the fiscal stimulus, however, came not from spending, but from a sharp fall in taxation revenue, details of which were revealed yesterday when the Bureau of Statistics released its data on taxation revenue for 2010-11.

Between 2007-08 and 2010-11 Commonwealth taxation revenue fell massively, from 24.3 per cent of GDP to 20.6 per cent of GDP. In other words the stimulus, and the associated increase in Commonwealth debt, came from a combination of a growth in expenditure of 1.6 per cent of GDP and a fall in revenue of 3.7 per cent of GDP.

We shouldn't expect a great deal of press publicity to these figures. One can hardly imagine a headline in the Telegraph reading "Taxes fall under Labor". That doesn't align with the impression we're supposed to have of this government, but the reality is that the average level of Commonwealth taxation was much higher under the Howard-Costello Government than it has been under the present Government.

The ABS data sheds some light on this fall. Had the Commonwealth's taxation as a share of GDP remained at the immediate pre-GFC level, the Government would now have around an extra $50 billion a year in taxation revenue — enough to fund an east coast fast train in one year, or to treble our public expenditure on tertiary education.

Of that $50 billion fall, 41 per cent is accounted for by lower company taxation receipts, 24 per cent from lower personal income tax receipts, and 14 perc ent from lower superannuation taxation receipts. The unifying factor in these figures is corporate profitability, or at least reported corporate profitability (for we now see that many of those valuations were illusory, the products of creative accounting). Taxes on both profits and capital gains have fallen.

State governments haven't felt the pinch quite as badly. GST receipts (collected by the Commonwealth but passed to the states) have fallen by about $5 billion dollars a year by the same method of estimation, and taxes on real-estate transfers have fallen by a similar amount.

Most PAYG taxpayers would be unaware of these falls in tax revenues, because they have been experienced by corporations and by those comparatively few individuals who had significant capital gains liabilities in the pre-GFC boom. And, thanks to political rhetoric, the myth persists that Australia is a high-tax country.

It is therefore politically hard for governments, Commonwealth and State, to raise revenue either through new taxes or through increased rates of existing taxes, because there is no general perception that there is a revenue problem.

The Howard-Costello government had an easy run with public revenue. They came to office in the recovery phase of Keating's "recession we had to have" and lost office just before our longest recorded business growth cycle ended so spectacularly with the GFC. Its budgetary figures showed a surplus, but economists were warning that it was running a "structural deficit", meaning that over the course of a business cycle its fiscal settings would return a deficit.

It also spent heavily on middle-class welfare, rather than on strengthening the economy with investments in education, infrastructure and environmental protection. The incoming Rudd Government may have found a little cash in the bank, but in terms of our run-down public assets it was left with a severe deficit.

Our taxes are among the lowest of all developed countries. Yet, from those taxes we are trying to juggle the tasks of funding a welfare system and providing important public goods. In this allocative process, which is no doubt in full swing in Budget Cabinet, social welfare gets the first (and growing) chunk of revenue, and the shrinking residual is allocated for public goods — those services and assets which the market cannot supply, or which the market can supply only at very high cost.

These public goods are important for our economic prosperity. A Right leaning government with a sense of economic responsibility would have a policy of sustaining low taxes, but cutting into welfare, preserving public revenue for public goods. A Left leaning government would allow taxes to rise to sustain welfare, without compromising expenditure on public goods.

The Government, however, is not raising the issue of our long-term fiscal viability, having allowed the Opposition to steer its attention to the single issue of the short-term budget surplus or deficit

The Opposition, for its part, is even worse. Its policies are neither Right nor Left, but simply idiotic. Abbott has made it clear that he would cut taxes, even the carbon tax and the mining tax, and that he would re-instate middle-class welfare. That can only mean deep cuts in public goods — including education, infrastructure and environmental protection — which are necessary to sustain our living standards and to build our economic strength for the days when the commodity boom ends.

It's a complete reversal of earlier Liberal Party policy, which, in accordance with its emphasis on self-reliance, was tight on welfare but generous on building the nation's physical and human capital. Do not Tony Abbott and his advisers understand that a welfare system needs a productive base, and that public assets are an essential part of that productive base?