We Have A Tax Problem, Not A Debt Problem

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Last week the Bureau of Statistics had a fire sale. Ian McAuley rummaged through the figures and pieced together a picture of how the Australian economy is faring.

Last week there was something resembling a clearing sale at the Bureau of Statistics. On Tuesday there were figures on labour mobility, on Wednesday national accounts, on Thursday labour force and industrial disputes, and on Friday trade figures.

They reveal an economy in good health, particularly in comparison with other "developed" countries, with unemployment having fallen each of the last two months to be at 5.1 per cent in August and economic growth to June at 3.7 per cent. They also reveal a changing gender mix in the workforce and a major problem with public revenue.

Naysayers quickly pointed out that unemployment fell because workforce participation fell. Employment growth was sluggish, with only 62 000 new jobs having emerged over the last twelve months, significantly lagging population growth. Over that period the employment to population ratio has fallen from 68.5 percent to 67.9 percent.

Given the publicity about labour shortages in mining and supporting engineering industries, and the struggles of the retail sector, we may have reasonably guessed that men took up most of the new jobs.

Not so; men are doing poorly in comparison with women, and their unemployment rate is higher. Of the 200,000 new jobs created over the last two years, 140,000 have been taken up by women, and only 60,000 by men. While women's workforce participation has grown strongly over the last 30 years, and has stayed high, men's participation has been steadily falling.

This shift in the gender mix of employment may explain some of the anxiety revealed in surveys about consumer confidence, which, after the boost associated with tax cuts and carbon tax compensation, has reverted to negative territory. Job insecurity is reaching into areas once considered secure male "white collar" occupations, particularly in the finance sector and the administrative ranks of government agencies.

Women, by contrast, have long been used to shorter spells of employment, and out of necessity have developed ways of coping with insecurity. More men are coming to experience what women have experienced for a long time, and are complaining. That's the way the economy is developing and men had better get used to it.

Those wanting to take a shot at the government were also pointed to two factors which suggest that the national accounts for the March to June quarter, now two months behind us, are about as good as it gets, and that we can expect poorer performance from here on. One is the softness of iron ore prices, which have been falling throughout the year. The other is the way the Commonwealth pulled forward spending, including some carbon tax "compensation", into the 2011-12 financial year, in order to reduce reported expenditure this year (2012-13), the year of the much-heralded planned budget surplus. Low mining profits may thwart that attempt.

These points are correct, but they could do with more consideration. Iron ore prices are indeed in a slow fall. A sharp price rise followed by a fall over many years is a common pattern in commodity prices, and Treasury has factored that falling price into its models of economic growth and public revenue. There are also short-term price fluctuations as some speculators gamble on futures markets and as other speculators invest in or dispose of stocks. Prices are at the low point of such a speculative cycle, and there should be some recovery back to trend. There is pressure on high-cost producers such as Fortescue Metals, but companies with lower production costs will be less affected. In any case, it is doubtful if Treasury was ever expecting a large tax take from Fortescue.

If Australia is to depend on mineral commodity exports we have to accept that our national income, budgets and exchange rates will have a rough ride. If we had the economic structure of a truly developed country we'd be exporting complex machinery, consultancy services, computer software and other products of an entrepreneurial business sector and a well-educated workforce. Speculators don't have an opportunity to gamble on such products and their prices therefore are much more stable. Our political debate should be about our economic structure, rather than abut the fragile, manipulable and largely meaningless balance between government receipts and expenditure.

That deficit obsession drives poor fiscal management. In pulling forward expenditure our economy has had a fiscal boost when it doesn't need one, because Australia's economy has been travelling well over 2011-12. The current year, however, could be tough, when a boost might well be needed. There are uncertainties and risks in all three big economies — China, Europe and the USA. Even if China's growth recovers to high levels it is likely to be a less resource-intensive growth than it has been. Europe is embroiled in a currency crisis, and the USA runs the risk of electing a government which would stop its weak recovery dead in its tracks.

At such a time the best policy for governments, Commonwealth and state, is to have at hand a list of projects with completed environmental assessments and planning procedures — "shovel ready" in the jargon of the trade. If a fiscal boost is needed it's far better that it be spent on economically justified projects, in surface transport and environmental restoration for example, than on handouts. Spending on such projects does add to debt, but that debt is offset by increased asset values on the other side of the public balance sheet and is repaid by improved economic growth. Spending on cash handouts, by contrast, simply results in more debt.

The Commonwealth isn't the only government gripped by the debt obsession. So too is the Queensland Government, under the guidance of Peter Costello, who in his time as Commonwealth Treasurer was the master of spending windfall public revenue on cash handouts — mainly middle class welfare — rather than on productive assets.

Costello had it easy on his watch, Over the years he was Treasurer taxation revenue (Commonwealth and state) was 29.8 percent of GDP. Since Wayne Swan has been Treasurer it has been 26.4 per cent of GDP, and last year fell to 26.1 per cent of GDP. Had taxation revenue stayed at the levels of the Costello years, Commonwealth and state governments would have another $54 billion a year to spend.

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State governments, with the exceptions of the two territories and Western Australia, are under huge stress because of the infrastructure backlogs left by the Howard-Costello Government and reduced GST revenue. States have less fiscal flexibility than the Commonwealth — it's much harder to close a school or hospital than it is to defer purchase of a couple of navy vessels or to shift the timing of handouts. And they're responsible for labour-intensive services of health care, education and policing. Given the pressure on state budgets it's hardly surprising that state government employees have caused a huge spike in working days lost to industrial action — another statistic released last week.

The figures on our taxation shortfall, are in the national accounts. But no politician from the big parties has the gumption to raise the issue of taxation, particularly while there persists the false idea that we're a high tax country. Nor should we expect the partisan Murdoch media to bring up the issue, because it would undermine Tony Abbott's notion that we have room for even further tax reductions. And ABC journalists seem to be too stressed to spend 10 minutes to do the additions and divisions to produce the above figures from the national accounts — it's easier to get a grab from an opinionated lobbyist or a statement of the conventional wisdom from Michelle Grattan.

Perhaps this is one of those policy challenges to which Malcolm Turnbull was referring when he said:

> "There is almost nothing more important to good government and our nation's future than the quality, honesty and clarity of political discourse: how we explain policy challenges and trade-offs, and educate voters about the constraints we have to work within."