THE 2018-19 FEDERAL BUDGET – WHAT SHOULD BE IN IT – AND WHAT WILL BE IN IT?

Talk to 'Business at the Bar'

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by

Saul Eslake

Principal, Corinna Economic Advisory Pty Ltd and
Vice-Chancellor's Fellow, University of Tasmania

Whiskey Room, Civic Bar
Canberra

'Budget repair' is still a key priority

The latest IMF *Fiscal Monitor* says "building buffers now will help protect the economy, both by creating room for fiscal policy to step in to support economic activity during a downturn and by reducing the risk of financing difficulties if global financial conditions tighten suddenly … countries should allow automatic stabilizers to operate fully" (something Australia had difficulty doing approaching the peak of the last business cycle).

The IMF goes on to advise, "some advanced economies would also benefit from broadening tax bases and upgrading the design of their tax systems" (Australia is one of those advanced economies, in my view) ... and "all countries should promote inclusive growth to avoid excessive inequality that can impede social mobility, erode social cohesion and ultimately hurt growth". I'll come back to these issues later on.

Returning the budget to surplus is an important goal not because budget surpluses are important in their own right – but rather with a view to enabling fiscal policy to play a (broadly) similar role ameliorating the next major economic shock, whenever it comes, as it did during the last one. That's especially important given that monetary policy will almost certainly not be able to play the same role in ameliorating the next major economic shock that it did during the last one (or the one before that … etc).

The 'path back to surplus' set out in last December's *MYEFO* envisaged a $10bn fall in the deficit in the current financial year (to $23.6bn); a very small decline in 2018-19 (to $20.5bn); a very large drop of almost $18bn (equivalent to 1 pc pt of GDP) to just $2.6bn in 2019-20; and then a further large improvement of almost $13bn (0.65 pc pts of GDP) to a surplus of $10.2bn in 2020-21.

Note that $4bn of this forecast improvement in the 'bottom line' in 2020-21 comes from including Future Fund earnings in the 'underlying' cash balance for the first time.'

But of the remaining $26.5bn improvement in the 'underlying' cash balance forecast in MYEFO to occur in 2019-20 and 2020-21, $23.8bn (or 90%) comes from projected growth in tax receipts ($59.2bn) in excess of the projected growth in 'underlying' cash payments ($35.4bn).

The biggest share of this forecast increase in taxation revenue comes from a projected $35½bn increase in personal income tax collections – taking them to 12.4% of GDP by 2020-21, the highest figure since 1999-2000.

This partly reflects the effects of the previously proposed 0.5 pc pt increase in the Medicare Levy from 1 July 2019, which the Government has now said it will not proceed with.

But a more important driver of this projected strong growth in revenues, on which the forecast return to surplus is premised, is the assumption that wages growth will pick up, from a forecast 2¾% in the current financial year to 3¼% in 2018-19, and 3½% pa in 2019-20 and 2020-21.

That forecast looks fanciful. Over the year to the December quarter wages grew by 2.1%. It's possible that wages growth may have bottomed – but as RBA Governor Phillip Lowe (among others) has warned, any pick-up from here will be "gradual".

Contemporary overseas experience in economies where unemployment has been below conventional estimates of 'full employment' suggests that the unemployment rate needs to be lower for longer than in previous cycles before wages growth begins to pick up. Here in Australia the unemployment rate has been 'stuck' at around 5½% for the best part of a year despite very strong growth in employment; and there is on top of that a fairly wide margin of 'under-employment'. So the idea that wages growth will be running at 3½% per annum in just over a year's time stretches credulity.

Interestingly, despite wages growth falling well short of the budget and MYEFO assumptions for the current financial year, the 'bottom line' does appear to be improving more rapidly than anticipated in MYEFO. Revenue has surged in the first nine months of 2017-18, running some $4½bn ahead of the profile assumed in MYEFO. This partly reflects the impact of stronger-than-expected growth in employment on personal income tax collections, which as of March were almost $2bn ahead of their MYEFO profile.

Additionally company tax receipts in the first nine months of the current financial year were about $1bn ahead of the MYEFO profile. This at least partly stems from the fact that commodity prices have held up better than expected in MYEFO; and it may also owe something to the possibility that the stock of losses companies accrued during and after the financial crisis, which they since then been able to offset against the tax they might otherwise have had to pay on their contemporary earnings, may have been largely exhausted.

Based on the numbers for the first eight months of 2018-19, it's likely that this year's deficit will be well under $20bn, rather than the $23.6bn forecast in MYEFO – which would at face value seem to make the task of reaching a surplus by 2020-21 less heroic than it seemed five months ago.

However I would hope that, rather than seeing this as providing scope for bigger 'give-aways' in the Budget – as the Deputy Prime Minister was suggesting a couple of weeks ago – the Government instead uses this windfall to reduce the extent to which the path back to surplus relies on barely-credible assumptions about wages growth.

The case for cutting the company tax rate is quiet weak

When they first took on the positions which they now hold, Prime Minister Turnbull and Treasurer Morrison seemed willing to contemplate a fairly ambitious tax reform agenda. They had inherited the *Tax Reform Discussion Paper* (curiously badged "Re:Think") from Joe Hockey, and for a couple of months engaged in a (not very well co-ordinated, it seemed at the time) process of "thinking out loud" about tax reform. Almost all of those thoughts faltered – primarily reflecting a judgement that the political costs of pursuing those reforms outweighed their perceived political and economic benefits.

So, apart from the 2016 Budget changes to superannuation (which called for a significant amount of political courage in confronting some of the Government's own supporters), the Government's sole tax reform priority has been to cut the company tax rate from 30% to 25% by 2026-27 at a cost (in terms of revenue foregone over the ten years to 2026-27) of $65.4bn.

I recognise that Australia's 'headline' company tax rate is now relatively high by 'advanced economy' standards – although as an analysis by the US Congressional Budget Office last year shows, our 'effective' company tax rate doesn't appear to be that much out of line with others – but in any case I don't think that, by itself, is a particularly persuasive argument.

One could equally say, our GST rate is low by international standards. And its base is narrow. We have relatively low rates of tax on petrol, by the standards of every OECD economy except the United States. Our personal income tax free threshold is one of the highest among 'advanced' economies. Our top personal income tax rate threshold is low, at least by the standard of other English speaking countries (other than NZ, whose top tax rate is also much lower than ours).

However these aren't commonly used arguments for change in any of these areas.

I also understand the economic theory which says that, by cutting the company tax rate and thereby raising the after-tax rate of return on corporate investment, all else being equal there should be more investment, leading to (among other things) higher productivity, and ultimately to higher real wages. I've made that argument myself on previous occasions.

But there is one big hole in that theory, in the Australian context. Our system of dividend imputation means that, for Australian shareholders in Australian companies, a cut in the company tax rate is offset by higher personal income tax liabilities on their dividends. So there is no reason why the after-tax return on their investment will rise, and hence no reason why they should anticipate the beneficial consequences predicted by conventional economic theory.

More generally, as I set out to find evidence to support the standard theoretical proposition as to the effects of cutting company tax rates, I have struggled to find any that I can regard as persuasive. And so, it would seem, has the Government. They've certainly not been able to point to any contemporary or recent examples of where cuts in company tax have produced the results suggested by economic theory.

The Government has sought to portray the recent US corporate tax cuts as an illustration of the potential benefits of its proposals. But, as the IMF makes clear in its latest *World Economic Outlook* (Box 1.5, pp.46-7) most of the upward impetus to forecasts of US economic growth comes from what we in Australia would call the "instant asset write off" that is part of the US measures. This is, by definition, a temporary measure. And it is not part of the Turnbull Government's proposals (although, interestingly, the Opposition has proposed something along these lines).

Nor is the Government's own modelling very compelling as to the benefits of its proposed company tax cut – suggesting a long-run increase of about 1 percentage point in the *level* of real GDP – of which about 0.4 pc points 'leaks' overseas; about 0.2 pc point in the *level* of employment; and a little over 1 pc point in the *level* of real wages.

More recent modelling by Chris Murphy, whose work the Government often quotes, points to even smaller gains (although Chris still supports the company tax cut).

For me the most compelling evidence comes from Canada – the country which, in many respects, is more like Australia in terms of the way in which it 'ticks', economically and culturally, than any other on the planet. Canada cut its company tax rate by 15 percentage points – that is, by three times as much as the Turnbull Government is proposing – between 2000 and 2012. Australia cut its company tax rate by 4 pc points in 2001.

Yet since 2000 – that is, after the mining boom (which was larger in Australia than in Canada) had come and gone – business investment rose by 1 pc point of GDP more in Australia than in Canada; while wages rose by 20 pc more in Australia than Canada over the same period.

Nor is the evidence from the UK – which has lowered its corporate tax rate from 28% in 2010 to 19% in 2017 – at all persuasive with regard to the effects of cutting company tax on investment or wages.

Neither has the early evidence from the US been kind to the idea that cutting company tax rates will produce an instant lift in investment, or wages (as distinct from payments to shareholders) – as former Republican presidential candidate Marco Rubio is the latest to acknowledge.

More generally, Australia doesn't seem to have had any great difficulty attracting foreign investment over the quarter century, or in recent years, notwithstanding our allegedly 'uncompetitive' tax regime – or, for that matter, notwithstanding the decline in our ranking on the various 'league tables' of international competitiveness over the past decade (for example, from 16th to 21st on the World Economic Forum's Global Competitiveness Index.

Indeed ABS figures suggest that 32% of Australia's stock of inward foreign direct investment as at the end of 2016, and 36% of the increase in Australia's stock of inward FDI over the 10 years to 2016, has come from nine economies whose corporate tax rates are lower than Australia's (the UK, the Netherlands, China, Singapore, Canada, Hong Kong, Malaysia, Luxembourg and Ireland).

So it's not at all clear that Australia *needs* to lower its company tax rate in order to attract more foreign investment – or indeed that if we do lower our company tax rate, we necessarily *will* attract more foreign investment.

There's a much better case for cutting personal income tax

In my view the economic case for cutting personal income tax is much stronger than the case for cutting the corporate income tax rate.

That's partly because well-targeted cuts in personal income tax – by which I mean tax cuts which primarily benefit low-to-middle income households – will directly address one of the principal reasons why Australian economic growth remains 'below trend', namely, the softness in household consumption spending which is in turn the result of persistent weakness in real household disposable income growth.

Over the past five years, real per capita household disposable income has grown at an average annual rate of 0.4% per annum – down from an average of 2.6% per annum over the preceding 12 years.

The principal reason for that is, of course, the unprecedented slow-down in wages growth - to an average of 2.2% pa over the past five years (just 0.3 pc point above the inflation rate), down from an average of 3.7% pa over the preceding 12 years. This is part of a global phenomenon.

But it hasn't helped that the share of 'taxable' household income (as measured in the national accounts) paid in income and other direct taxes has increased by almost 2½ pc points since 2011 – from just under 17 pc points to almost 19½% in 2017. That's the highest level since 2006. The rising share of household income paid in income tax has contributed to the persistently slow rate of growth in household spending over the past five years.

A PBO analysis published last October shows that the average tax rate paid by taxpayers in the middle quintile of taxable incomes (who have an average taxable income of $46K in 2017-18) has risen by 3.8 pc points since the 2010-11 financial year. For taxpayers in the second and top quintiles, average tax rates have risen by 3.0 and 2.5 pc points respectively; while for taxpayers in the fourth (ie second lowest) quintile the average tax rate has risen by 1.3 pc pt. Only for taxpayers in the lowest quintile has the average tax rate paid remained unchanged.

The same analysis shows that the average tax rate paid by taxpayers in the middle quintile of taxable income would have risen by a further 3.2 pc points by 2021-22, inclusive of the previously proposed increase in the Medicare levy, while that paid by taxpayers in the second, fourth and top quintiles would have risen by a further 2.5, 2.3 and 1.9 pc points respectively.

I assume that without the Medicare levy increase, those increases would be scaled back by 0.5 pc pts in each case. Even so, the cumulative increases in average tax rates paid by taxpayers in the middle and top two taxable income quintiles will have more than fully wiped out the effects for them of the Howard-era tax cuts by 2020-21.

And that isn't the end of the matter.

In the absence of any adjustments to the current personal income tax scale, most taxpaying individuals will experience further significant increases in the proportion of their income paid in tax over the course of the next decade.

Remember that the longer-term budget projections included in the 'fiscal strategy' sections of Budget and MYEFO documents since 2014-15 have incorporated an assumption that taxation revenue will be 'capped' at 23.9% of GDP once that level is attained (in 2022-23, in the most recent set of projections).

However, that is, as the Budget Papers say, merely a 'technical assumption', not a policy or a target. Once can infer from the most recent MYEFO projections that, in the absence of such an assumption, tax revenue would reach 25.0% of GDP by 2027-28. That would be the highest proportion since 1952-53, at the height of the Korean War wool boom when Australia's terms of trade reached a peak higher than that attained during the recent mining boom. And it's reasonable to assume that the lion's share of that increase in taxation revenue would come from personal income tax.

The Howard era tax cuts were, at least in part, fiscally unsustainable, as I and a handful of other economists tried to point out at the time, and which is now much more readily apparent with the benefit of hindsight.

They converted what was a temporary upswing in revenue into a permanent erosion of the revenue base, not so much by the adjustments that were made to tax thresholds but rather by the myriad ways in which the income tax base was narrowed in order to confer preferences on selected groups of taxpayers.

And of course since then, successive governments have introduced some new programs entailing significantly higher spending over time – including most obviously the NDIS, but also 'Gonski' spending on schools, increased spending on defence and 'security', etc. – all of which means that government spending could be of the order of 1 pc pt of GDP higher, on average, over the medium term than it was during the Howard years.

So it would not be either reasonable or feasible to re-instate the late Howard-era levels of personal income tax.

But – working from the longer-term economic projections as set out in the December MYEFO, the revenue flowing from which seems likely to be revised upwards a bit in next week's Budget - there *is* some room to reduce personal income taxes starting in the early years of the 2020s, whilst still leaving a 'responsible' budget surplus.

On the December MYEFO projections, without the assumed 23.9% of GDP 'cap' on taxation revenues, the 'underlying' cash balance will be almost 1.6% of GDP: which given that nominal GDP will be around $3 trillion in that year, implies a surplus of about $47bn. That's $34bn, or 1.2% of GDP, more than MYEFO projected with the 'cap' on tax revenues in place. Over the five years to 2027-2028, the difference between maintaining and relaxing the 'cap' on taxation revenues as a proportion of GDP amounts to almost $87bn.

It's not clear how much of this difference is taken up by the cost of the Government's proposed cut in the tax rate for companies turning over more than $50mn annually – which is reportedly of the order of $15bn in 2027-28.

But even if it were thought desirable, from an economic management perspective, to have budget surpluses of the order of 1% of GDP by the middle of the next decade (rather than the 0.4-0.5% of GDP projected in last December's MYEFO with the 'tax cap' in place), that still leaves at least $20bn per annum which could be used for cuts in personal income tax.

And that number could be even bigger if the Government were prepared to give up its proposed company tax cut.

Of course the middle of the next decade is a long way away, and the public are entitled to view with considerable scepticism any promises of tax cuts that far into the future.

There isn't nearly as much scope for significant personal income tax reductions in the coming financial year, or even in the life of the next parliament, unless the Government is prepared to adopt implausibly optimistic economic forecasts for the years immediately ahead, or to settle for very small budget surpluses during that period.

The only way to do more than that is to contemplate more wide-ranging tax reform.

The case for more wide-ranging tax reform

Part of the difficulty that the Government has had in selling its proposed cut in the company tax rate is that this is the only substantial change to the tax system which it is proposing – and one for which, as I've noted already, its case is less than persuasive.

While the Business Council of Australia doesn't seem able to grasp this point, the Australian Institute of Company Directors has. In its most recent Governance of the Nation 'Report Card', the AICD says "merely cutting or raising taxes in isolation, no matter how beneficial, is not the same as whole of system reform. Nor is it politically palatable". To their credit, the AICD has been prepared to advocate changes to negative gearing and the capital gains tax discount as part of the 'comprehensive tax reform' which they recommend.

There hasn't really been any major tax reform since the Howard Government's 'New Tax System' of 2000, the largest single element of which was the introduction of the GST to replace the wholesale sales tax regime first introduced in the 1930s, and a number of state franchise fees which had been invalidated by the High Court a few years earlier.

What we have had since then, apart from the cuts in personal income tax which were a feature of every budget between 2003 and 2008, and some occasional tinkering with rate scales subsequently, is a whole series of changes which, for the most part, have had the effect of narrowing the tax base in order to confer some kind of preferential treatment on particular groups of individuals or businesses.

Many of these are on my 'list of the dumbest tax policy decisions of the last 10, 15, or 20 (as the case may be) years', to which I've often referred in talks and media interviews at different times over the past two years.

Here's one version of that list, not necessarily in order of 'dumbness' or importance:

1. The exemption from personal income tax of superannuation payments to people over 60 (2006-07 Budget) (partially reversed in the 2016-17 Budget)
2. Replacing the 1985 capital gains tax regime (tax on real gains at full marginal rates) with one in which nominal gains are taxed at half marginal rates (September 1999 in response to the Ralph Report)
3. Abolition of indexation of petroleum products excise (2001-02 Budget) (re-introduced in 2014 Budget)
4. The Senior Australians Tax Offset (SATO, now SAPTO) (2001-02 Budget), which allows people aged 65 and over to pay less tax on a given amount of income than people aged under 65, just for being 65 or over
5. First Home Owner Grants for purchasers of established homes (part of the GST introduced in 'Australia's New Tax System' in 2000) (abolished by most state governments after 2013)
6. Entrepreneurs' Tax Offset (25% discount on tax liabilities of small businesses with turnover of less than $50K, phasing out at turnover of $75K) (2004-05 MYEFO, abolished in 2011-12 Budget, but re-introduced at a lower level in the 2015-16 Budget)
7. Introduction of a lower company tax rate for small corporations and 5% tax discount (up to $1000) for unincorporated small businesses (2015-16 Budget)
8. Allowing pre-tax contributions to super of up to $1 million in the 2006-07 financial year (2006-07 Budget)
9. Allowing self-managed super funds (SMSFs) to borrow in order to purchase assets (2007, residential property from 2010)
10. Raising the tax free threshold from $6000 to $18000 (and raising the bottom marginal rate from 15% to 19% to pay for it) (2012-13 Budget)
11. The Private Health Insurance Rebate (1999-00 Budget) (subjected to a means test from 2013)
12. Abolition of the carbon tax (2014-15 Budget).

To re-iterate, most of these decision were intended to privilege a particular segment of households, or businesses, by allowing them to pay less tax than other people or businesses in an otherwise similar position.

One of the less well recognized consequences of some of these changes has been a significant redistribution of taxation away from older citizens to younger and middle-aged Australians.

An analysis of data provided in the ABS' bi-ennial surveys of Household Income and Wealth shows that, between 2003-04 and 2015-16:

- the share of the *number* of Australian households 'headed by' (or as they now say, for whom the 'reference person' was) someone aged 65 or older increased by 4.1 percentage points (from 19.9% to 24.1%);
- the share of total *gross income* accruing to these households rose by 3.4 pc points (from 9.7% to 13.1%); and
- the share of total *household wealth* owned by these households rose by 6.7 pc points (from 24.8% to 31.4%);

but

- the share of *income tax paid* by households 'headed' by people aged 65 or over *fell* by 0.9 pc point (from 6.3% to 5.4%); and
- their *average tax rate* (tax paid as a pc of gross income) *fell* by 4.6 pc points (from 12.3% to 7.7%);
- whereas the average tax rate paid by all other households *rose* by 0.8 pc points (from 19.5% to 20.4%).

The biggest losers from this inter-generational redistribution of income, wealth and tax liabilities appear to be households 'headed' by people aged 35-44, whose shares of total household gross income and wealth have fallen by 2.4 and 5.4 pc points, respectively, between 2003-04 and 2015-16, but whose share of total income tax paid has risen by 0.4 pc points, and whose average tax rate has risen by 2.2 pc points, over this period.

Households 'headed' by people aged 25-44 have also seen their share of total gross income and wealth fall by 4.0 and 2.4 pc points, respectively, between 2003-04 and 2015-16 – but their average tax rate has also fallen by 1.8 pc points over this period, and their share of income tax paid by 5.8 pc points.

Households 'headed' by people aged 55-64 have done pretty well out of inter-generational changes in the distribution of income and wealth over this period, their shares increasing by 5.1 and 1.6 pc points respectively – but their share of income tax paid has also risen by 5.1 pc points, reflecting the fact that their average tax rate hasn't changed at all.

It is difficult to see anything 'fair' about this redistribution of income and wealth from younger and middle-aged adults to the old, and of income tax liabilities from the old to the middle-aged.

While I don't dispute that there should be some incentive to encourage people who have the capacity to provide for their own retirement income needs to do so, I can't think of any valid reason why there was any need to provide greater incentives for self-provision in retirement than there was at the turn of the century.

And while I acknowledge that both the Rudd-Gillard Government, and the Turnbull Government, have wound back some of the excessively generous concessions that were granted to superannuation savings, if it were up to me I would go further in that direction. So I suppose many people will be glad it isn't up to me.

One other measure on my list of dumb tax policy decisions which I want to mention specifically is the institution of a lower rate of company tax for 'small businesses'.

This is the one element of the Government's company tax reduction package which attracted bi-partisan support – indeed multi-partisan support, since it was also supported by the Greens, minor party representatives and independents in both houses of Parliament.

It did so without there being a skerrick of evidence to support the almost universally-accepted (it would seem) proposition that taxing 'small' businesses at a lower rate than 'large' ones (however those adjectives are defined) will boost investment, employment and/or innovation.

In fact the evidence says the opposite.

'Small' businesses, which in ABS statistics are those with 20 or fewer employees, may well account for 44% of private sector employment (though the denominator in that statistic for some reason excludes the banks) – but that's down from 47% in 2009-10. In fact employment in 'small' businesses hasn't grown at all since 2009-10, at least up to 2015-16.

By contrast, 'large' businesses (those with 200 or more employees) have accounted for more than three-quarters of the increase in employment over the past six years despite representing less than one-third of the level of private sector employment.

Likewise, small businesses are much less likely to engage in any of the four different categories of innovation included in ABS statistics on business innovation than medium-sized or large businesses.

If any type of business should be preferentially treated by the tax system in the hope that doing so would boost job creation or innovation, then it should be *new* businesses, not 'small' ones.

New businesses are much more likely to create employment, and to innovate. There are far fewer of them than there are small businesses, so the cost of any incentives in terms of revenue foregone is much less. And there will be fewer perverse 'threshold problems', since a new business can't stop itself from becoming an older one – other than by going out of business; whereas 'small' businesses can and do eschew growth in order to remain eligible for small business tax concessions.

So I'd get rid of all of those as well, if I could.

What I am really on about is *broadening the tax base*. That's why I have been willing to support all of the income tax base-broadening measures which the Labor Party has proposed – the curtailment of negative gearing, the reduction in the capital gains tax discount, the taxation of trust distributions, and the abolition of cash rebates for 'excess' franking credits (although I still harbour some doubts as to whether the last of these will produce as much revenue as the Opposition, on PBO advice, argues that it will).

However, I am just as implacably opposed to Labor's proposal to increase the top marginal rate of personal income tax.

Australia's top marginal rate 'cuts in' at a relatively low income threshold – at least by comparison with most other 'English-speaking' countries which have tax systems similar to ours. In Canada, you don't start paying the top marginal rate until your income exceeds the equivalent (at current exchange rates) of about A$212,000; in the US, the top tax rate threshold is the equivalent of about A$658,000 for an individual (or A$395,000 for each of a married couple filing separately); and in the UK, it's the equivalent of about A$273,000. All much higher than our top tax threshold of $180,000. Yes, that's higher than in New Zealand, where you start paying the top tax rate once your income exceeds the equivalent of A$65,400 – but that top tax rate is 33%.

Of course, most continental European countries have lower top tax thresholds (and higher top tax rates) than Australia and other 'English-speaking' countries. They also typically have higher rates and wider bases of GST; and most of them impose flat-rate 'social security contributions' in addition to their income taxes (as do the US and the UK). That's because they typically have much larger governments than we do, or than anyone is seriously proposing that we have, here in Australia.

The ATO's most recent Taxation Statistics, released last Friday, show that the 416,529 individuals whose taxable income was sufficient to put them in the top tax bracket represented just 3.1% of the total number of taxpayers, earned 18.2% of total taxable income, but paid 30.4% of the total amount of income tax paid.

I think those who want to raise the top marginal rate should explain how much more should this lemon be squeezed, and why.

I'm all in favour of making bringing more of the income earned by high-income earners into the tax net, and of closing down most of the channels used by high-income earners to reduce the proportion of their income which is 'taxable'. And if that results in the proportion of total income tax paid by people in the top tax bracket rising further, then, fine. But I don't think it's reasonable to expect those who are already paying 47% of all of their income in excess of $180,000 to be contributing even more.

In conclusion

This talk was meant to be, at least in part, a preview of next week's Budget. And I have spent most of it talking about the revenue side, whilst barely mentioning the expenditure side.

There are certainly things I would like to see on that side of the budget, including:

- a serious effort on the part of the Government to increase the supply of affordable rental housing, including through increased Commonwealth funding to the states and territories through the new Housing and Homelessness Agreement;
- a serious review of spending on 'security', as advocated by the Productivity Commission in its most recent Trade and Assistance Review released (appropriately enough) the day after Anzac Day;
- a rigorous re-assessment of some of the infrastructure projects to which the Government has committed itself since last year's Budget, in particular the Goondiwindi-to-Galarganbone express aka the 'Inland Railway', and others which clearly would not pass any kind of arms-length cost-benefit test;
- an increase in the level of the Newstart Allowance paid to the unemployed, which has fallen from 93% of the value of the single age pension to 66% since the turn of the century;
- some serious re-prioritization of the way in which the Commonwealth Government funds schools – along the lines which I think the Minister for Education is trying to achieve, but which probably won't go as far as I think it should.

However, I think I have been keeping you from refreshing your drinks for as long as I can – so I will stop at this point, and look forward to your comments and questions.