QED

What is to be done?

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The Budget Revisited: A national morality play

Every year in the Austral Autumn we are treated to a one night prime time performance of a national morality play known as *The Budget*. Its implicit message is similar to the annual report for a large business in that it aims to present the best possible picture of the condition of the enterprise and its current management. However, while the corporate version focuses on productivity and profit, the government's version is all about taxing and spending. Another key difference is that the corporate report highlights accomplishments whereas *The Budget* is mostly about promises.

In searching for terms to characterise the overall nature of the latter production, words like farce, Pollyanna and charade come to mind but morality play seems to perhaps best convey the overarching tone of high moral purpose in which it is presented. Always the idea is that the increases in spending and taxation being announced will be tough but fair and necessary for better times to come. Costs tend to be expressed in weekly or fortnightly increments while benefits are often helpfully summed up to more impressive totals per annum or over the span of the proposed initiative.

Although *The Budget* always follows the same general plot, a new script with numerous differing details lends an element of freshness to each performance and has everyone awaiting each new production in keen anticipation. Carefully orchestrated "leaks" of details attracts media attention for several weeks leading up to performance night. In addition to generating great publicity this also permits testing audience response to potentially controversial points and final tuning of the script if indicated.

Frequent reference to fairness lends a distinct moral overtone to the proceedings. After a century of such fine tuning for fairness one might expect that by now it would be a given, hardly requiring any mention. However, it seems to remain as elusive as ever despite the annual assurance of its being attained by the current version.

In all fairness, the problem resides not so much in the execution but in the fundamental concept which is aiming to be made "fair". Most taxes, and income tax in particular, are poorly conceived from the start in this regard.

In the case of income tax:

- It penalises earning and saving while promoting spending and borrowing.
- It makes a mockery of the idea of a free market by diverting capital away from productivity and toward tax advantage.
- As a prime source of revenue for government, income tax is unreliable. In boom years plentiful revenue from good profits tempts commitments which become unsustainable deficits in lean times when profits are greatly reduced.
- Expenses necessary to producing income vary widely with circumstances. Trying to legally define what is to be taxable net income after allowing for costs inevitably results in a heavy burden on some and a free ride for others.
- Attempting to close perceived loopholes has resulted in byzantine complexity and a proliferation of further loopholes.
- The complexity of tax law and the detailed record keeping which it demands has spawned a vast non-productive industry of accountants, lawyers and advisers as well as a huge bureaucracy to administer it. The cost in cash, human resources, lost productivity, misdirected capital and debt servicing is massive.
- Progressive rates of taxation for higher income is self-defeating to "fairness" as it is
 the higher income levels which supply most of the capital for investment and lending
 without which the less well-off have fewer jobs, lower wages and higher costs of
 borrowing.
- The idea that private wealth is somehow "unfair" is beyond stupid. What is spent by the wealthy on extravagant living goes to pay others for the goods and services consumed. Moreover, to remain wealthy most wealth must be invested and thus results in generating more jobs and productivity. The only truly non-productive use of wealth is to pay taxes much of which is then used to pay people not to produce anything, or to produce stuff nobody will buy at market prices, or to hire more minions of the bureaucracy to actively interfere with people who are producing the things we do want or need.

After all the lies and promises, the bottom line for every performance of *The Budget* is always the same. Government is a bit bigger and the burden on the productive sector is a bit greater. Over the past half-century the advanced economies of the world have enjoyed a time of prosperity unequalled in human history. This has also fostered the development of unprecedented levels of bureaucracy, regulation and government implemented welfare with ever increasing taxation to support it all.

For most of this era the prosperity of the advanced economies was based on skills and technologies which only they possessed. Over the past few decades, however, these skills and technologies have become widely accessible. While the advanced economies were encumbering their productive sectors with an ever increasing burden of taxes and regulations, the developing ones have been powering ahead with strong competitive advantage.

Hubris and ideology have barred consideration of any possibility that the prosperity of the developed nations might not be a permanent condition stemming from some innate superiority. The result has been a hollowing out of their manufacturing sectors as businesses

closed down or moved offshore. The first to go were the lower levels of skills and technology but increasingly higher levels have followed. Many services too are now taking a similar path.

The productivity and prosperity made possible by technological advances has not only permitted a proliferation of government and bureaucracy, but has also created a growing portion of the population who through wealth or welfare do little or nothing productive to earn a living. These non-workers and an ever increasing public sector employment have grown in proportion to where they now constitute a majority of the electorate. Their only means of improving their own position is to vote to take more from the productive sector. Whether a system governed by a popular majority vote can avoid self-destruction if the productive sector becomes a minority is problematic. This is especially so when property rights are also being steadily eroded.

Across the developed economies productivity and profitability are now in decline from taxation and bureaucracy. At the same time the capacity to innovate and adapt to changing conditions is impeded by a sclerotic mass of regulations created around past conditions that in many cases are no longer viable. Governments are incurring growing deficits which cannot be sustained and will inhibit any future recovery. The economic centre of gravity is slipping away from the developed nations and once lost may take generations to recover. The prospect of prolonged economic depression, riots, martial law and even hunger breaking out in a number of developed nations is all too real.

At this point the politicians seem to be either oblivious or whistling in the dark and hoping for the best. None are willing to risk publicly admitting the seriousness of the situation and until it is generally recognised no significant reform can begin. It appears that the situation will have to first become manifest and undeniable. Hopefully from an Australian perspective, the big problems will begin elsewhere and we can then start to acknowledge and address the situation before it becomes as critical here.

What we do then will depend upon available ideas. In preparation some things worth starting to think about:

- Revising and revoking decades of accumulated regulation is impractical; but, restoring the personal rights and limits on government embodied in Common Law, the Bill of Rights (1689) and the Constitution is eminently doable. This would at least provide a tool for the productive sector to start hacking back the strangulating bureaucracy.
- Defining a limit to government spending in proportion to GDP and prohibiting deficits except in a time of high level national emergency would also seem a valuable constraint.
- Abolish all taxes, rates and other government imposts save one on expenditure. For "fairness" it might be at three levels, low for basic necessities, high for expensive luxuries and moderate for everything else. This would amount to an expanded GST. It would be easy to administer, difficult to avoid, economically balanced and easy to adjust for a desired level of revenue. It wouldn't be perfect, but it would be a vast improvement on the insanely complicated counterproductive system we now have.

• Make all government bodies subject to auditing for productivity with budgets set accordingly. On a cost/benefit basis many existing entities should be substantially reduced or eliminated entirely.

If all this sounds a bit too dramatic to take seriously consider the following.

- In OECD ranking Australia is at or near the top for house prices, personal debt, food price increases over the past decade and bank exposure to loans for inflated real estate. We are also at or near the bottom in manufacturing as a precent of GDP.
- With the U.S. and several E.U. nations teetering on the brink of insolvency and China being recently reported as having sold off some 97% of their U.S. Treasury bonds in the past 7 months, a double dip global recession seems almost certain.
- Further recession will mean a collapse in commodity prices and the Aussie dollar with an unsustainable blowout in costs for imports of all the things we no longer produce for ourselves.
- One thing for certain, priming a blocked pump won't make it work correctly again. The economic pump is clogged with government trash and no amount of stimulus priming can bring it back to full function. It has to be cleared out to recover full function.

Fortunately this is indeed *The Lucky Country* and unlike most other developed countries the situation we face is eminently fixable. All we really need to do is reign in government, unshackle our producers and get the parasites off their backs.

Until a government produces a version of *The Budget* which actually starts to reduce the burden of government on the productive sector and begins to restore basic rights and freedoms, the closer we get to the brink of the bottomless chasm of debt now opening before all of the Western nanny states.