

Opening statement – The Australia Institute

The terms of reference of the National Commission of Audit invite it to treat the public sector as illegitimate, inferior and unnecessary. But while the terms of reference could have been more neutral inviting genuine debate about the role of government it is useful to put the discussion in context.

One of the main objectives of the National Commission of Audit is to cut government spending and use the savings to cut taxes, if not now then later when the budget balance looks 'better'. So it is fair to ask who benefits by that.

Government spending at all levels of government was estimated by the ABS to reach \$578.6 billion in 2013-14. That is \$24,800 per person. In return we pay taxes including two Commonwealth taxes, taxes on individuals and the GST. A good deal of government is also financed by company taxes, excise duties and other taxes, fees and charges. But we try to keep things simple here and ask how much do you have to earn before the value of what you receive from government equals the value of what you personally contribute to government.

So for every single Australian (without dependents) by the time we count income tax the Medicare levy and the GST you get more than you contribute at lower incomes and probably break even when you reach an income of over \$80,000. Above that you pay more in tax than on average someone gets out of the system. That puts you roughly in the top 25 per cent of income earners. But for a two earner family of four (two adults and two children) you break even at a combined income of around \$234,000 – two adults on equal incomes would have to be in the top 7 per cent of earners. And a one earner family of four (two adults and two children) breaks even at an income of around \$240,000 which means you earn in the top 1.5 per cent of the income distribution.

So if you cut government services and use that to reduce taxes you may benefit singles in the top 25 per cent of earners but among families you will likely only benefit two earner families where each adult earns in the top 7 per cent or one earner families where that earner is in the top 1.5 per cent!

These are very crude estimates and actual figures depend heavily on individuals' circumstances but the orders of magnitude are important. Generally cutting expenditure and giving tax cuts benefits only the rich and only the very rich in the case of families with children.

Some advocate reducing the income tax and financing that by increasing the revenue we collect through the GST. We can work out which family types would win and at which income that would occur. Obviously there would be a different answer depending on exactly how it is done but we can get a rough idea by noting that at the moment the personal income tax collects 3.35 times as much as the GST so that a revenue neutral swap would involve putting the GST up 3.35 per cent for every one per cent cut in income taxes. On our simple modelling people pay more than 3.35 times the GST on incomes above approximately \$66,000. So that means we could expect a revenue neutral switch involving lower income tax and increasing the GST is likely to benefit the top 35 per cent of income earners and hurt the bottom 65 per cent of earners.