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# Business confidence and tax reform key to Turnbull government re-election: CEDA

Stephen Martin

*University of Wollongong*, [smartin@uow.edu.au](mailto:smartin@uow.edu.au)

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# Business confidence and tax reform key to Turnbull government re-election: CEDA

## **Abstract**

If the Malcolm Turnbull-led government wins over business and brings to the table a strong economic agenda it will be returned to office, albeit with a reduced majority, the Committee for the Economic Development of Australia's 2016 Economic and Political Overview predicts.

## **Keywords**

turnbull, confidence, key, business, election, reform, re, government, tax, ceda

## **Disciplines**

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# THE CONVERSATION

## Business confidence and tax reform key to Turnbull government re-election: CEDA

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**Stephen Martin**

Visiting Professor, University of Wollongong



The Malcolm Turnbull-led government will have to combat a gloomy Australian economic forecast in this year's election. AAP/Mick Tsikas

If the Malcolm Turnbull-led government wins over business and brings to the table a strong economic agenda it will be returned to office, albeit with a reduced majority, the Committee for the Economic Development of Australia's 2016 Economic and Political Overview predicts.

But the government will have to contend with pessimism about Australia's economic trajectory, with a lack of income growth as a significant risk and income growth in 2015 at its weakest since the early 1960s.

The annual CEDA report, which has essays on Australia's political and economic outlook from some of Australia's most senior industry and academic experts, argues this is causing households to defer spending, businesses to hold off on capital investment and labour hiring, while governments attempt to tighten the fiscal screws.

One of the report's authors, Dr Peter van Onselen, says the prediction of a return to office for the Turnbull government will depend on whether or not the government goes to an early election and will have to contend with the politicking of a full-year election campaign making tax reform difficult.

If an election is fought with major tax reform, Van Onselen predicts the Turnbull government would be likely to retain upward of 80 seats and give the new prime minister a strong

mandate. However if the government takes a weak tax agenda to the election, losing more than half a dozen seats in the process, it will have only limited authority and there will be a risk of the leadership failures of recent years repeating.

While the report sees the Turnbull Government's Innovation Statement as a step in the right direction, there is a need for policies that create an environment in which businesses have opportunities to innovate.

Tax reform is one example. Chief Economist for the Business Council of Australia, Lisa Gripp argues that Australia's 30% company tax rate means we are a less attractive place to invest and innovate, especially when compared to Asian countries, where the average company tax rate is 22%

The lack of income growth leading to the deferral of household spending and business investment and hiring will be a significant risk.

Yet, CEDA is predicting the economy will grow by 2.75% in 2016 and unemployment will be lower during the year. It also predicts wage growth should remain modest and inflation restrained.

**Table 1**

**Australia: CBA key forecasts**

	2014 (actual)	2015 (forecast)	2016 (forecast)
Real GDP (%ch)	2.6	2.3	2.8
Unemployment rate (%)	6.1	6.1	5.7
Underlying CPI (%ch)	2.5	2.3	2.3
Wage Price Index (%ch)	2.5	2.3	2.4
Current account deficit (\$bn)	48	68	58

Sources: Australian Bureau of Statistics; Commonwealth Bank of Australia

Key forecasts for Australia's economy from the 2016 CEDA Economic and Political Overview ABS/Commonwealth Bank, Author provided

With the global economy so dependent on China to drive economic growth, if Australia can continue to drive investment in financial services, tourism and health and education products and services, it will stand to benefit from the growing demand from a growing Chinese middle class.

In addition, the Aussie dollar is at a level that should encourage innovative advanced manufacturing to be explored. Advanced manufacturing means using our high skill levels to develop high value, low volume products and services. This could range from the biomedical sector to defence technology.


The main economic risks for Australia are by now well understood: a fall in mining capital expenditure and slowing global growth. Both the IMF and World Bank downgraded growth forecasts, something also highlighted in the government's Mid-Year Economic and Fiscal Outlook.

Housing construction has picked up some of the slack but even this sector faces some

uncertainty with the Australian Prudential Regulation Authority (APRA) imposing a 10% cap on bank lending for investment properties, amid political duelling over potential reform to negative gearing.

The report predicts mortgage rates will remain low with the Reserve Bank of Australia not expected to increase cash rates. Inflation is also low which gives the RBA room to move if there is a need to cut rates further; but rates are likely to remain on hold. According to Commonwealth Bank Chief Economist Michael Blythe the cash rate will remain at 2% throughout 2016.

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