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

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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.

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

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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 Gropp
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

<table>
<thead>
<tr>
<th></th>
<th>2014 (actual)</th>
<th>2015 (forecast)</th>
<th>2016 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (%ch)</td>
<td>2.6</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>6.1</td>
<td>6.1</td>
<td>5.7</td>
</tr>
<tr>
<td>Underlying CPI (%ch)</td>
<td>2.5</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Wage Price Index (%ch)</td>
<td>2.5</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Current account deficit ($bn)</td>
<td>48</td>
<td>68</td>
<td>58</td>
</tr>
</tbody>
</table>

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.