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# DANIELLE WOOD

**Program director, budget policy  
and institutional reform | Grattan  
Institute**

**What can we expect from economic  
policy in an election year?**

**Financial Standard Chief Economists Forum  
Danielle Wood, Grattan Institute  
5 February 2019**

# Economic and policy outlook for 2019

## **This election offers voters a genuine choice on economic policy**

- The back drop – the long promised surplus likely to eventuate in 2019-20 but more good luck than good management
- Plenty of down-side risks in the medium-term

## **Coalition's economic plan: lower taxes and more jobs**

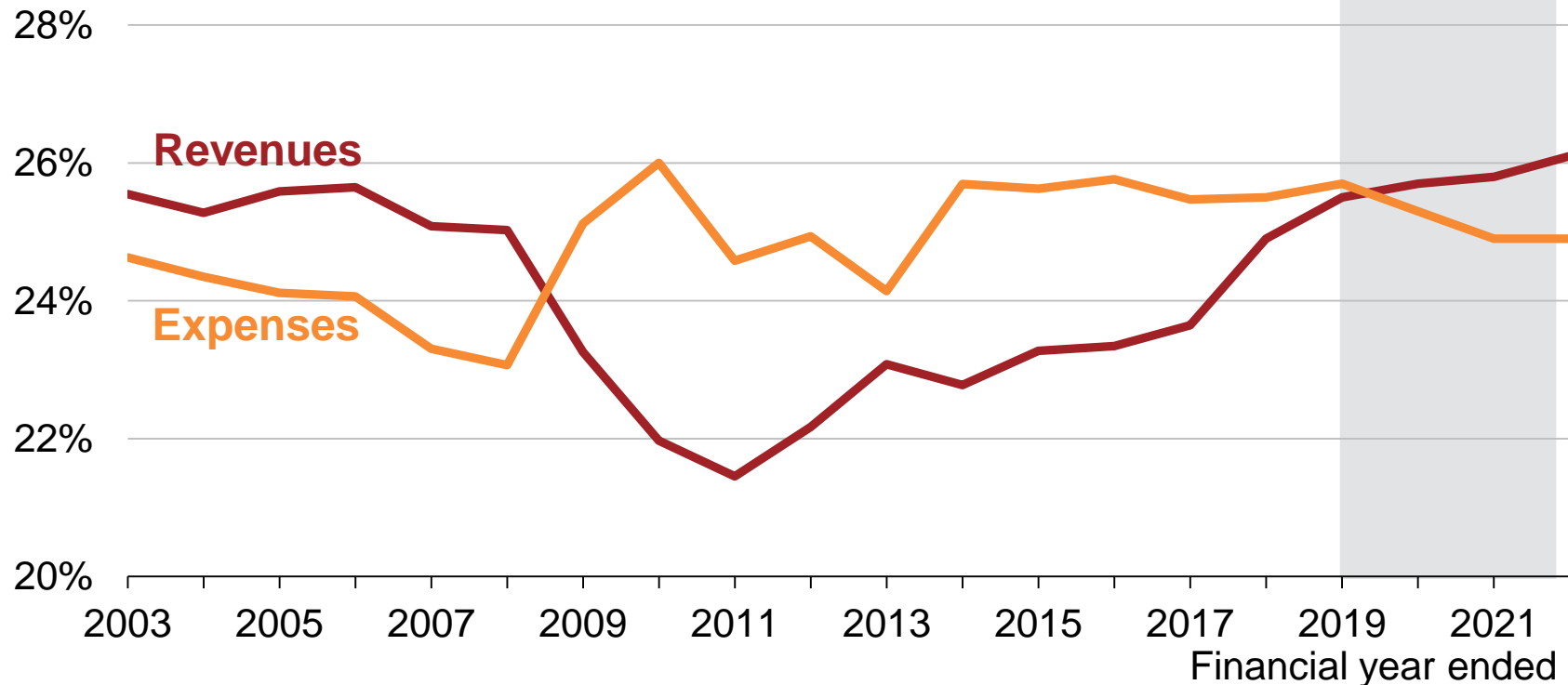
- Personal income tax plan – tax cuts grow over decade but still less than bracket creep
- How will the government 'create' 1.25 million jobs?

## **Labor's economic plan: targeting tax concessions to support more social spending and budget repair**

- Big target strategy – negative gearing and CGT discount, excess franking credits, family trusts, opposing tax cuts for people on higher incomes
- \$240 billion war chest over a decade – some will be spent, some will be used to consolidate budget position

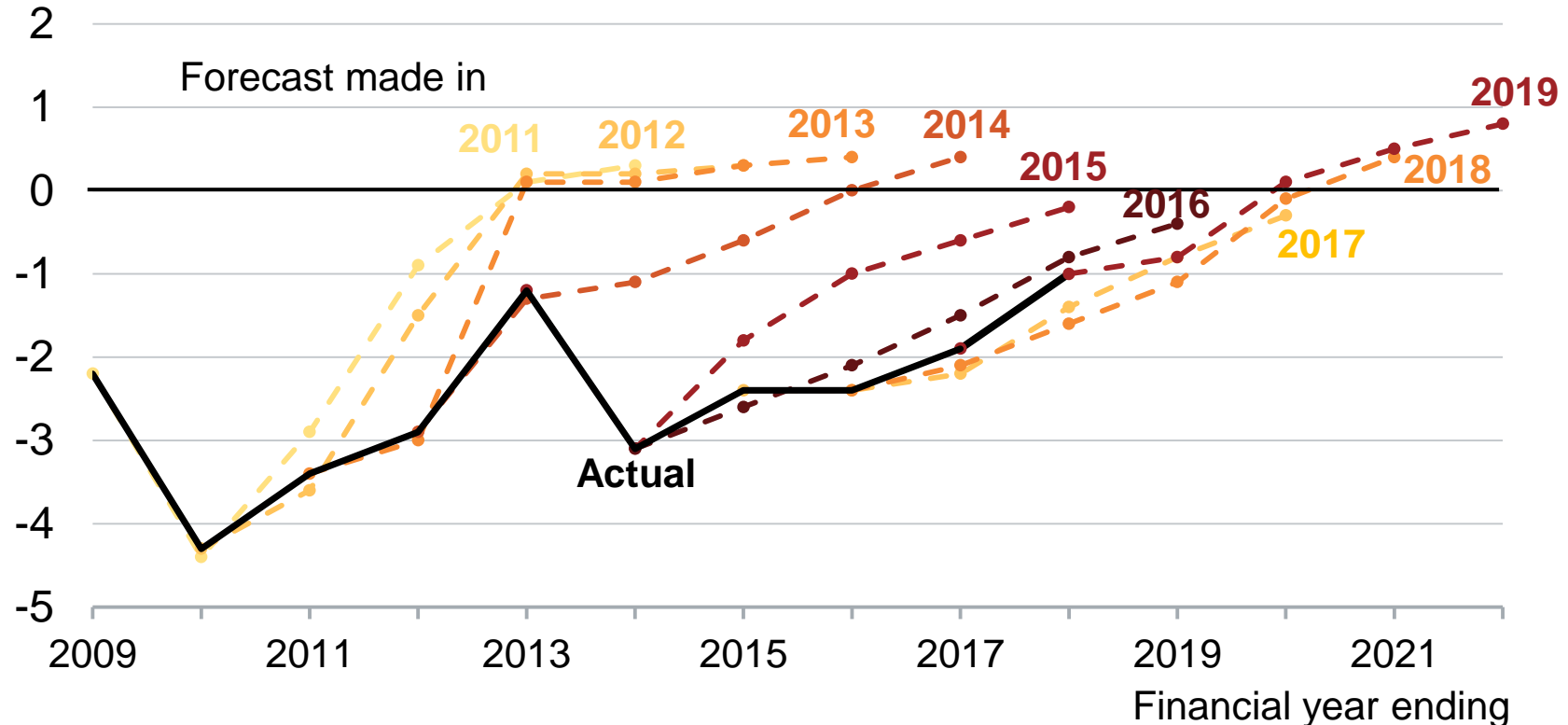
# The long-promised surplus is imminent

Commonwealth expenditures and revenues  
per cent of nominal GDP



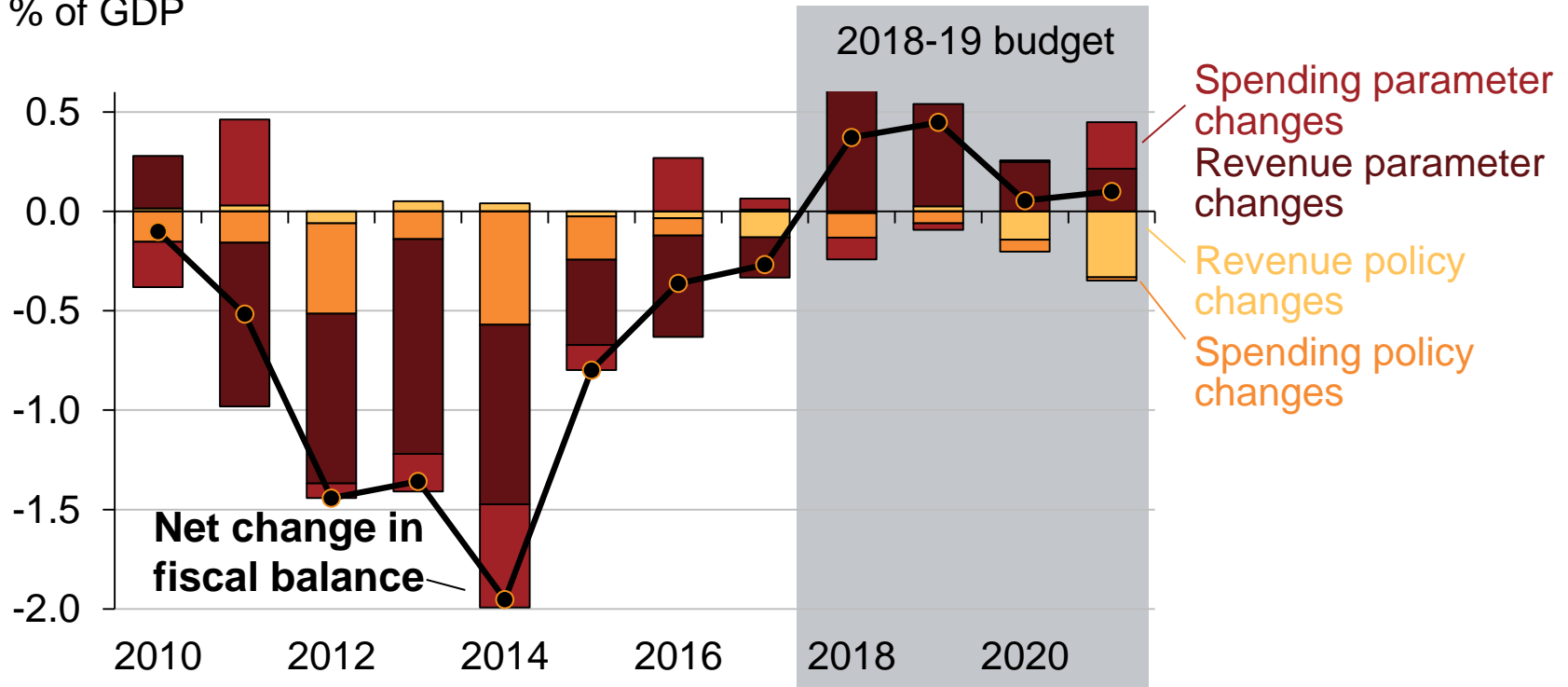
# And (this time) reality is likely to match the promise

Actual and forecast Commonwealth underlying cash balance, per cent of GDP



# Good luck or good management? Improvement primarily the result of revenue surprises

Change in budget outcome from last forecast  
% of GDP



Note: Net change in fiscal balance excludes Net Capital Investment. From 2017-18 Budget onwards, changes in government reporting mean that figures are for Net Operating Balance

Source: Grattan analysis of Commonwealth Budget Papers (various years)

# And there are plenty of downside risks in the medium-term

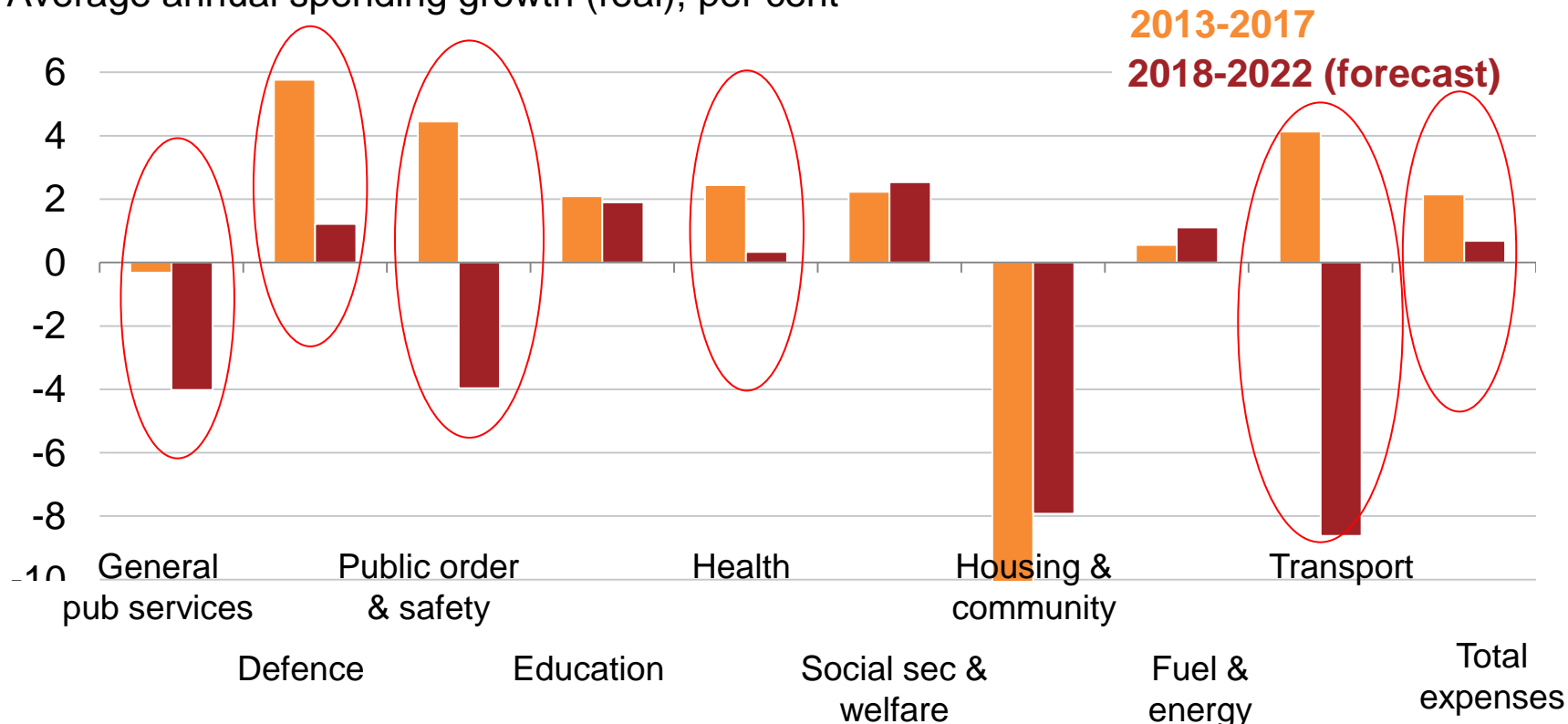
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- **Economic risks** – major downturn, commodity price falls, wage growth fails to recover
- Government is extremely optimistic about capacity for **spending restraint** – both in the short-term and the medium-term
- **Pre-election spending spree** only just begun
  - \$ 4.6 billion additional school funding to placate Catholic schools
  - \$10 billion change to GST formula to placate WA
  - ‘Congestion busting’ infrastructure
  - Increases in pension and family payments
  - \$9 billion in tax cuts (‘decisions taken but not yet announced’)
- **Off-budget infrastructure spending** reached \$50 billion – at some point the fiction these assets will make a return will become too difficult to sustain



# I want to believe....

Average annual spending growth (real), per cent



Notes: Excludes some of the smaller functions and expenses for 'other purposes' (largely GST payments to the states). Total expenses growth is also calculated excluding 'other purposes'.

Sources: Commonwealth Budget Papers, 2018-19; Grattan analysis.

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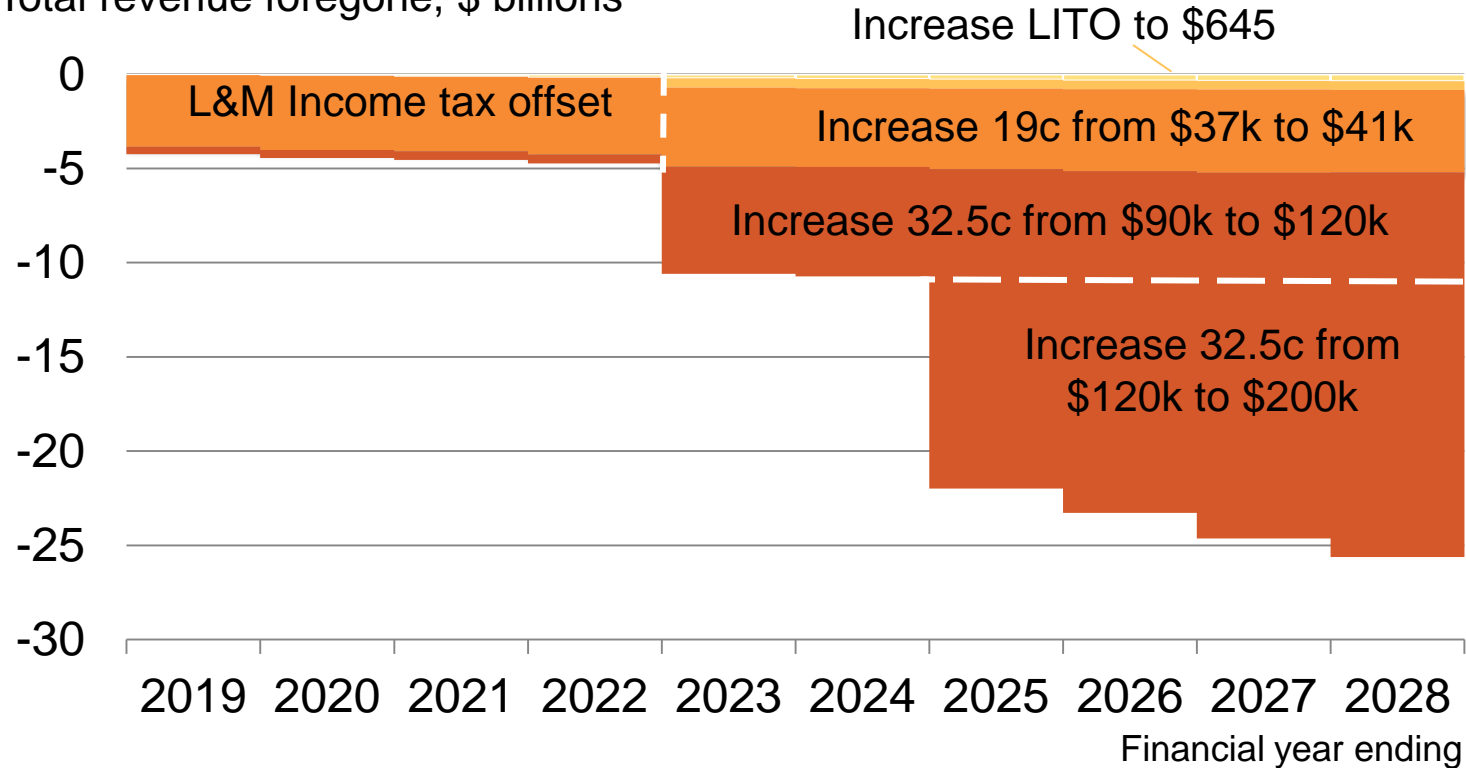
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# The Government's Personal Income Tax Plan

Total revenue foregone, \$ billions

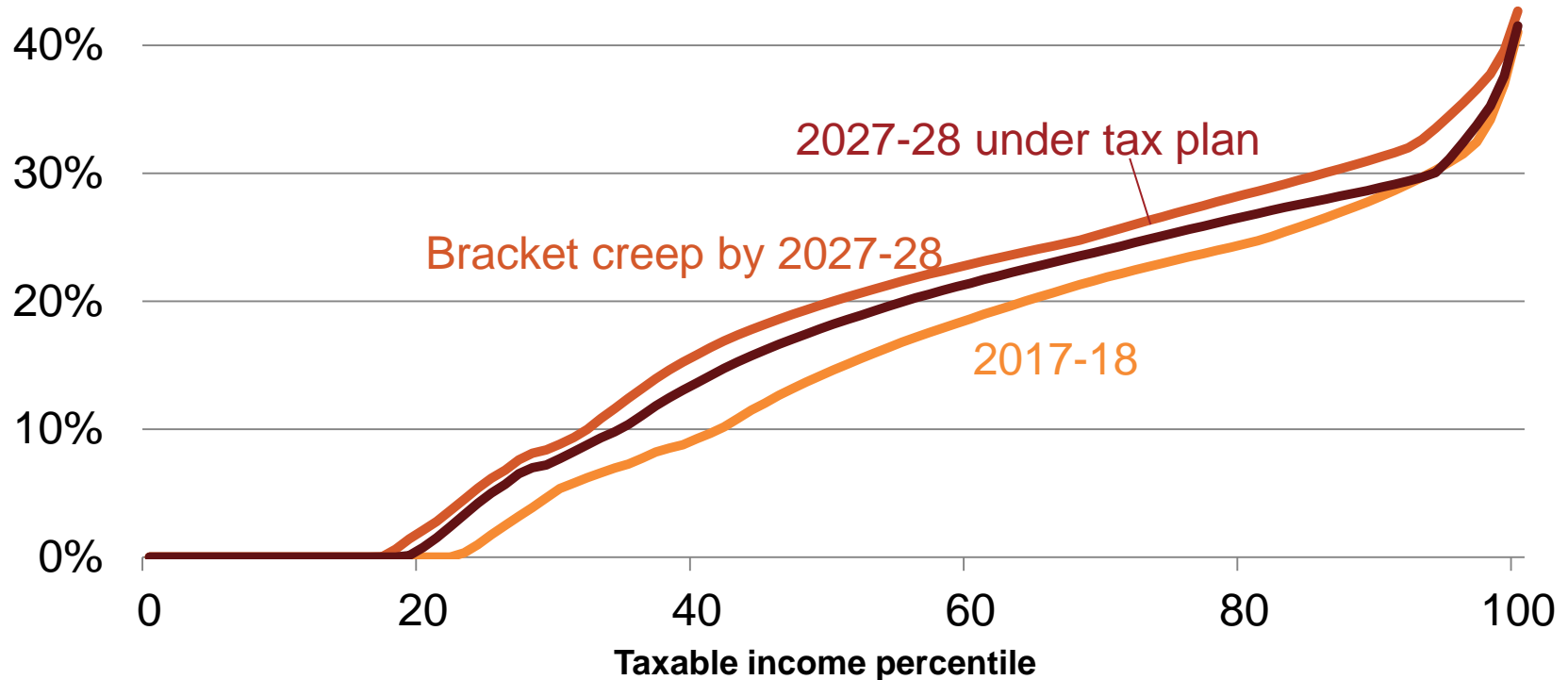


Note: Excludes interaction effects (<\$½ b in any year)

Source: Commonwealth Budget Papers, 2018-19; Grattan analysis of ATO sample file 2015-16.

# Tax cuts will give back (some) bracket creep

Average tax rates by taxable income percentile, %



# The Government's jobs pledge is a pledge to run strong migration

Government pledges to create **1.25 million jobs** over the next five years

- About 250,000 more than forecast in December Mid-Year Update
- Quotes historical record of jobs creation as evidence
- Relies on government continuing to run migration at high levels
- Contrary to the message that the government will reduce the migration intake.

“[voters are saying]...enough, enough, enough. The roads are clogged, the buses and trains are full.. I hear you loud and clear. That's why we need to improve how we manage population growth in this country”



Prime  
Minister Scott  
Morrison

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# Labor's announced policies amount to a substantial war chest

Policy	Ten year revenue forecast (\$ billion)
Ending refundability of excess franking credits	56
Winding back negative gearing and CGT discount	37
Changes to superannuation tax concessions	19
Tax changes for family trusts	15
Repeal parts of personal income tax plan (plus higher tax offset)	115
<b>TOTAL</b>	<b>242</b>

# Unpacking some of the effects

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- Labor's plan will collect a greater share of tax from those on higher incomes:
  - Repeal tax cuts people over \$90k
  - Franking credits changes mainly hit wealthier self-funded retirees
  - Capital gains and trust income also skewed towards better off
- **Negative gearing and capitals gains tax** changes unlikely to have big impact on housing market
  - Overall price effect 1-2%, limited effect rents
- **Removing refundable franking credits** likely to:
  - Lead to some portfolio rebalancing from domestic shares to other assets
  - Reduce economic benefits dividend imputation
  - Distort choice between APRA-regulated funds and SMSFs
- Big outstanding question is how much used to support **higher spending** versus **budget repair**



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