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Tax from more jobs lowers debt by \$16 billion

A Lateral Economics study released today shows that over a quarter of the debt from the fiscal stimulus will be repaid from the taxes of those who would otherwise have been unemployed.

“As our economy turned down in late 2008, Australians’ spending kept other Australians in work. And those kept in work repaid the favour – by continuing to pay their taxes.” said Nicholas Gruen, CEO of Lateral Economics.

“So for every dollar the government spent, tax revenue to Australia’s governments rose by around 22.5 cents, leaving just 77.5 cents to be repaid. The total windfall to the budget – and to the community – of the additional tax revenue from the cash transfers is around \$6.7 billion. This money and the production of all those people and all that capital kept in employment are the riches of good economic management – the only kind of free lunch we know of.

“Results were even better for the infrastructure spending. Where some of the cash payments were saved, all of the infrastructure spending went straight into the Australian economy. And with larger ‘multipliers’ than consumer spending, every \$1 of government infrastructure spending increased output by \$1.20 generating 36 cents of government revenue.

“So for each dollar of stimulus the Government spent on infrastructure, the debt incurred was only around 64 cents. Thus of the \$26.5 billion dollars of infrastructure budgeted to be funded in the years 2008-9 and 2009-10 Australian taxpayers will need to service and/or repay only around \$16.9 billion of debt via state and federal taxes.

“Of course, being rushed, there were inefficiencies in building the infrastructure. The recent Interim Report of the Orgill Taskforce estimated those inefficiencies at around 5 to 6 cents per dollar spent. Those inefficiencies cost around \$1.5 billion compared with the tax windfall of \$9.5 billion from tax collected from who would not otherwise have been employed. The net result leaves Australians better off by around \$8 billion.

“Counting the effects of both the cash transfers and the infrastructure spending to the financial year just ending, tax revenue increased by \$16.2 billion from additional employment. These economic benefits are in addition to any social benefits including improved physical and psychological health from lower unemployment. Dr Gruen said.

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