Creating a more dynamic and resilient economy inquiry

Questionnaire response 73

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Submission date: 4/06/2025

1. Support business investment through corporate tax reform

1. What features of the Australian business environment have encouraged or restrained investment over the past 10 years?

Ever increasing taxes is killing the motivation of entrepreneurs. Corporate tax rate is irrelevant. Even if it is zero, it makes no difference. Eventually the profit has to be used and will pay the top marginal tax rate (TMTR). The TMTR is what is relevant. Ever increasing taxes on Super is an example of hits to the talented, resulting in them going lazy.

2. What elements of the corporate tax system encourage and/or discourage investment and risk-taking?

See above. Stop ever increasing taxes on super, TMTR (eg Medicare levy increase a few years ago), land taxes etc: all these sap the motivation to take risks.

3. Which parts of the corporate tax system do you find the hardest, or most time or cost-intensive to comply with? How could the compliance burden of the business/company tax system be reduced?

Its the burden of the total tax system that is relevant, not just the corporate tax system.

2. Reduce the impact of regulation on business dynamism

1. What areas of regulation do you see as enhancing business dynamism and resilience? What are the reasons for your answer?

Ever incraesing regulations in every aspect of business adds to costs, reduces profit, makes the job of being an entrepreneur a hassle rather than joy. Hence entrepreneurs are quitting.

2. How has your regulatory burden changed over time?

Getting worse ALL the time. We need a DOGE (Department of Government Efficiency) whose task is to cut the regulatory burden by about 5% every year.

3. What regulations do you find time-consuming, overly complex or otherwise constraining business dynamism and resilience? What are the reasons for your answer?

Every area has coplex regulations. For eg, running a medical practice comes with Accreditation requirements who are ever increasing. Running an education business and RTO accreditation requirements has steadily been increasing over the last 20 years.

4. Can you share any specific examples of where you think a regulator has done a good or bad job of understanding and reducing regulatory burden on businesses and why?

Regulators job is to regulate. To cut regulations is like turkeys voting for Xmas. Why would they do that??

Cover sheet: Supporting document #1

Submitted 16 June 2025

Just as employees withdraw their labor when rewards are insufficient, businessmen stop their entrepreneurial activities when the burden gets high (tax/regulatory burden).

This is the main reason for record low investment by business. When this happens, remaining businesses will raise prices and profits because they are unwilling to 'create/produce' without higher 'rewards'. This creates a cycle of high inflation, low competition (due to entrepreneurs 'withdrawing' their activities), low investment, etc.

Charles Jones of Stanford University, suggests a NEGATIVE top income tax rate of -26%. If high earners produce a lot of ideas that help society, then “subsidising the discovery of new ideas through low tax rates may be as effective as redistribution in raising worker welfare”, he writes. In April Ms Stantcheva won the John Bates Clark medal, awarded each year by the American Economic Association to the leading economist under the age of 40, in part for her work on the matter. She has found that personal income taxes (and corporate levies) significantly deter innovation.

Submitted 6 June 2025

In summary, there are only 3 things to do to turbo charge an economy:

1. Reduce the Top Marginal Tax Rate (TMTR) drastically (corporate tax rate is totally irrelevant)

2. Steadily reduce the regulatory burden on businesses

3. Attract outlier talent (those at the extreme right tail of the log normal talent distribution). If you do 1 and 2 above, such people from around the world will flock to Australia. Such talent must be glorified, rather than vilified. They are currently shunning Australia or if they do come, they soon become indolent.

You can devise a thousand pillars but none of them will work, and in fact are more likely to accelerate the productivity decline, unless the above 3 pillars are addressed.

It is impossible to raise productivity when the motivation of those on both the left and right tails of the Bell Curve is being hammered.

The motivation of those on the right tail being hammered with ever increasing taxes and business regulations. These people will stop working hard (as I have) or move to other (low tax/regulations) countries such as the US (a thought I have been considering lately), Dubai/Singapore. What matters is the TOTAL taxes.

The motivation of those on the left tail is being hammered with welfare, labour market regulations (difficulty in firing leading them to slack off at work, being insubordinate, not seeking work at all but living on welfare, etc).

Charlie Munger said: "Show me the incentive and I will show you the outcome". There are increasing incentives for people to slack off: those on the right tail due to high TMTR, and those on the left tail due to welfare.

If you keep plucking the feathers of the goose, it will stop laying eggs (no productivity growth) and will eventually die (Australia will be a banana republic).

The mindsets of those on the left and right tails don't change overnight, but they do change gradually over years/decades.

A little known fact is that the talent is NOT normally distributed but is lognormally distributed (*Probably Overthinking It: How to Use Data to Answer Questions, Avoid Statistical Traps, and Make Better Decisions* by Allen B. Downey). When such super talented people are forced to become lazy or emigrate to low tax countries, it has a **massive disproportionate effect** on the productive capacity of the country. When the rich are hit with 'confiscatory populism', they react with emigration or become lazy.

Policy decisions will have a long time lag to take effect. For example, increases in taxes on Superannuation (numerous tweaks in the last 10 years) and other taxes are hammering the motivation of the productive people. Similarly any possible future taxes on inheritances will take years/decades to have a negative effect on the motivation. For example, if there were inheritance taxes, I would not have bothered to build my business. The results of any public policy interventions take many years/decades to become evident. The ever increasing taxes and regulations in the last 40 years are being seen now, in terms of low per capita GDP/Productivity growth.

The sacred cow that 'Inequality is bad' must be slayed. It is the driver of economic growth and evolution as Gregory Clark of Southern Denmark University points out in his books. The problem though, is that benefits of equality are immediate and visible but the benefits of inequality are long term (over decades or centuries) and diffuse.

If you had to design a system which guarantees low productivity, you couldn't create a better one than what we now have.

Whether in health or public policy, wrong diagnosis is worse than no diagnosis. Almost all the suggested 'solutions' to the productivity problem are due to wrong diagnosis, hence they will only make the problem worse than it would be, without any intervention.

An important point to note is that the submissions to such enquiries are **not representative** at all. Most entrepreneurs just give up and stop building/running businesses because they see no point in being involved in such inquiries and see such exercises as futile. Most people who are directly affected are not aware of such enquiries and even if they are, would not bother to engage. Those who make submissions tend to be from academia and the government, whose suggested solutions make the problem worse.

Unfortunately the people of Australia who enjoy vilifying the top tail, egged on by the politicians, have decided that slow decay (Argentinian style) into mediocrity is better than swallowing the bitter medicine of high inequality.

Below is a copy of the email that I sent to my local MP:

I would like to thank the Governments (local, State and Federal) for something you wouldn't expect: for making me lazy by their relentless attacks on the motivation of those of us who aspire.

Those who have the Conscientiousness trait tend to work hard: but the relentless rise in taxes (eg attacks on Super) are extremely effective in killing their motivation to work, slowly but surely (Boiling frog syndrome).

Why should I work for the Government from January to August every year? With a top marginal tax rate of 50% plus GST plus state & local taxes/duties/levies/rates, I pay nearly 65% of what I earn.

Company tax rate of 25% is meaningless, since when I take out the profits for personal use, I have to pay the difference anyway (so end up paying the top marginal tax rate). That the rich don't pay enough tax is a cruel myth promoted by the left, to stoke envy.

I could work more and expand our business presence overseas, but why should I do it, when I get to keep so little of the rewards of my effort? Why should I work (navigating all the ever increasing regulations)???

Most business owners feel this way, but do not express it for various reasons.

Thank you for making me lazy (which isn't easy: I couldn't have done it without your help!).