THE AUSTRALIAN FINANCIAL REVIEW

Hard Sell: How to argue for a company tax cut in an election campaign

How do you sell corporate tax cuts? Geoff Denman of Neoclinical suggests this as a rough concept.

By Ben Potter

The brief: Design an advertising campaign for a cut in company tax to run in the lead up to the federal election.The degree of difficulty: Extreme. There are sound in principle arguments in favour of cutting company taxes.The trouble is, hardly anyone wants to listen to them.

On the plus side, a company tax cut has the backing of the federal Treasury, the last two Treasury secretaries, and many orthodox economists.

Treasury economists estimated, in a paper published in Economic Roundup in 2014, that two-thirds of the burden of company taxes actually falls on households in practice – primarily in reducing their wage and salary income – even though the tax is levied on companies.

The idea is that companies can pass company tax on to workers in the form of lower wages or fewer jobs, or on to households in form of higher prices or less value for money in the goods and services they supply. Thus only about a third of any increase in company taxes is actually borne by companies or their shareholders in practice. It just gets passed on.

Give companies a tax cut and, sure, they will seek to pass on a good piece of the extra cash they get on the bottom line from their sales to their shareholders, or to themselves as higher salaries. But the major part of it, Treasury says, will go to households as higher wages, extra jobs created by increased capital investment, or lower prices.

Australia's company tax rate of 30c in the dollar for all but the smallest firms is higher than the prevailing rate in most parts of Asia and many countries in Europe. Last year, blood products group CSL, one of our most successful companies, blamed the high company tax rate for its decision to outsource a new high tech plant to Switzerland rather than Australia.

A large investment and the highly paid jobs that came with it went begging largely because of Australia's uncompetitive company tax rate.

Why such a hard sell?

The main people arguing for company tax cuts are large companies and their well-paid executives. Since the global financial crisis, rightly or wrongly, large corporations and their bosses have been even more on the nose with Jordan and Tayla Sixpack than they were before the crisis.

They are popularly believed to be self-interested, and not really interested in the welfare of ordinary working people, no matter how fervently they declare the health, safety and wellbeing of their workers, and not their long term incentives, is what really gets them out of bed in the morning.

The ink was barely dry on Tuesday's front page story in The Australian Financial Review on business leaders calling for lower company taxes than NSW manufacturing union boss Tim Ayres tweeted that they were a "group of rent-seekers who would not employ a single extra person if we did [lower the tax]".

As well, the case for company tax cuts now is not as bulletproof as its advocates suppose, which could make for a messy public debate – just the kind that would fail to cut through in the rabid to-and-fro of an election campaign.

One counterargument is put by Melbourne University economics professor John Freebairn, who is usually an advocate for lower taxes on broader tax bases as a way of boosting community welfare.

Freebairn looked at the extent of foreign ownership of corporate Australia last year, and concluded that it is deep and broad enough to weaken the case for cutting corporate taxes to boost investment. He reasoned that a large share of a company tax cut would go straight overseas as larger dividends to foreign shareholders, while the increased investment that is supposed to follow a tax cut could take much longer to emerge.

Another argument is put by Labor's shadow assistant treasurer Andrew Leigh. Leigh says dividend imputation - our unusual measure for crediting shareholders for the taxes already paid by companies - reduces the high take from company taxes to about the same as would be raised by a company tax rate nearer a globally competitive 20 per cent - without imputation.

A third, made by another Melbourne University economics professor, Ross Garnaut, is that the many oligopolies and regulated monopolies in Australia's modest and distant economy already have it pretty easy and hardly deserve a tax cut.

Yet another, from Grattan Institute chief executive John Daley, is that with interest rates at 5000-year-lows - as shown by a recent paper from the Bank of England - there is no shortage of capital. The problem is finding projects with a positive return.

Never mind that there are counter-arguments to all of these. The problem for a government trying to prosecute a company tax cut is that once the argument gets down to this level of detail in a hard-fought election campaign, it is likely lost.

Geoff Denman is a former business partner of the late advertising guru Neil Lawrence. The pair were responsible for wildly successful campaigns including the "Kevin07" blitzkreig that put Labor's Kevin Rudd in The Lodge, and the mining industry's brutal assaults on Labor's mining super-profits tax and carbon tax.

He agreed the challenge was a particularly steep one given all the revelations about multinational tax avoidance. But it is not impossible. Ayres' tweet got just one retweet and three "like". And the unions aren't the audience, undecided voters are.

Framing the argument

First, anticipate your likely opponents and their arguments. In this case, unions, and probably Labor - although they support a cut in company tax to 25 per cent one day when the budget allows it - and the Greens. They will argue that a company tax cut will only increase the profits of multinationals who already don't pay their fair share, and the benefits will go overseas and fatten the already outrageous salaries of their chief executives. "A taxpayer funded leg up to these large companies", Denman summarises.

Instead of playing on their ground, the government should frame it as an argument about creating jobs, Denman says. If they can credibly connect arcane policy detail to favourable outcomes, the unions and their fellow travellers would find it much harder to rebut, because at the end of the day unions are supposed to be about creating and preserving jobs.

"If I was [Treasurer Scott] Morrison or [Prime Minister Malcolm] Turnbull I would be saying jobs every second sentence. You should not be focusing on the policy. You should be focusing on the outcomes," he says. "It is not a policy to increase profits. it is a policy to create jobs."

That's the substance. A rhetorical kick in the vitals is just as important. Denman says the campaign should baldly declare: "Anybody who is opposed to a policy to create jobs doesn't have the best interests of Australian workers at heart." It should ask, "How could anyone be opposed to this outcome?"

Campaign's thrust

Business leaders have fought the good fight, but sadly can't be part of this campaign. There's no point putting up anybody who obviously has a vested interest in the outcome and in particular the best interests of the workers of Australia at heart. I would not be asking industry to come out in support if it because I don't think it helps the argument."
In any campaign, a poster could feature ordinary workers' faces and a simple declaration: "Good Governments don't create more taxes. Good Governments create more jobs. Let's have less taxes and more jobs."

For the TV campaign, Denman recommends using independent economists, or ordinary workers who can talk about how important job security is to them, or a counterintuitive voice like a former top unionist or Labor minister who sees merit in the argument, such as Martin Ferguson.