

Chapter 3

Conclusions and recommendation

3.1 The net impact of the personal income tax cuts on inflationary pressures in the economy is not clear and cannot be reliably estimated. Depending on the consumption and savings behaviour of individual taxpayers there is a risk the tax cuts proposed in the bill could increase domestic demand in the Australian economy by somewhat more than they increase its productive potential. In this sense, they are likely to add somewhat to inflationary pressures. The government however, has committed to balance this trend by tightening fiscal policy in the 2008-09 Budget with significant spending cuts to decrease public demand.

3.2 Notwithstanding some signs of a slowing in domestic demand, inflationary pressures remain a concern. Granting tax cuts will cause pressure on fiscal policy which, if unaddressed, may put pressure on inflation and interest rates. Promoting a sustainable fiscal position should assist in achieving a low inflation environment.

3.3 However, the longer term health of the Australian polity is weakened when governments renege on major electoral commitments. There is a strong case for Australian working families to receive the promised tax cuts to assist them in dealing with financial pressures. It is, of course, desirable on economic grounds to encourage them to save rather than spend them.

Recommendation

The committee recommends that the bill be passed.

Senator Annette Hurley
Chair

