

Dear Prime Minister, I'm an innovation worker and your 'Plan' will drive me away

by Matt Ellis

Dear Prime Minister Turnbull,

I am writing to belatedly and publicly call your bluff on your so called 'innovation agenda', which forms a key plank of your 'Plan' for jobs and growth. There are all kinds of reasons to be disappointed with your leadership of this country so far, after promising to establish an honest economic discussion based on evidence, and focused on necessary and long overdue reforms. The speed with which you have retreated from any semblance of honest economic discussion and reform agenda is almost unprecedented in the history of Australian political capitulation, which after recent years is saying something.

But the betrayal that leaves the most bitter taste in my mouth is your abandonment of the crucial tax reforms needed to drive the much vaunted innovation economy, such as reforms to negative gearing and the capital gains tax. You have instead favoured a disgraceful scare campaign in service to the rentier economy and a set of fig-leaf innovation incentives to disguise your actual betrayal of our long overdue economic rebalancing toward more productive and tradable enterprise.

The bluff I wish to call is that your innovation agenda is indeed the very opposite: a 'rent-seeking agenda' that rewards unproductive wealth extraction and speculation and punishes genuine productive investment and innovation. You have crafted a 'Plan' for stagnation and economic crisis that you are now selling as the very opposite. A more Orwellian political campaign I can't remember, in a country that almost invented political double-speak.

As a young Australian on the receiving end of decades of housing cost hyperinflation, if your government is re-elected, I'd leave Australia on the basis of your severe and glaring lack of housing affordability measures alone. But as a technology worker, if our current economic model prevails indefinitely, it's the lack of an 'innovation economy' that will finally drive me to greener pastures. And both reasons come back to the same set of bipartisan government policies designed to protect rent-seekers in the FIRE (finance, insurance & real estate) sector and the existing landed classes by creating and then propping up the country's largest ever housing bubble for the last 20 years.

Australia can have an innovation economy or a housing bubble, it can't have both. Which is where Labor and the Greens are the political parties actually taking an innovation agenda to the next election. They are pledging to begin solving housing affordability and at the same time – and crucially – help restructure the economy away from unproductive (and destructive) land speculation, and towards value added business investment.

As a pro-business candidate, you of all people should understand the distinction between unproductive and productive investment, earned and unearned income, that is so crucial to understanding this debate. Indeed, you previously described negative gearing as a "tax shelter" that "skews national investment away from wealth-creating pursuits, towards housing".

It seems you previously and rightly believed negative gearing and capital gains tax concessions to be tax rorts that encourage speculative investment, which is damaging to the economy, financial stability, housing affordability, and the government budget. Your about face on this issue, one that your government initially described as excessive and in need of change, is a massive strain on your credibility, as you discovered when your house-price scare campaign backfired on your polling.

More recently, you declared yourself as an advocate for land-value-capture, or land value taxation, the most progressive, productive, equitable, and efficient tax base there is. Yet you simultaneously argue that we need to continue offering a discount on the capital gains tax for investment properties, because to remove the discount would destroy investment. Would a land value tax destroy investment? You know it wouldn't. In reality it would do the opposite, because it would incentivise the most efficient use of land, lower costs in the economy, increase economic productivity and help to fund the development of infrastructure, something that ultimately enriches the whole economy as well as the landowners that directly benefit.

Continuing to apply a discount to capital gains tax on land is the opposite of Value Capture – it's Value Release. Our preferential tax treatment of housing investment is among the most generous in the world, and it equates to giving away our economic surplus

to land speculators, draining money out of the real business and consumption economy, and turning it into inflated asset prices and interest payments on the world's highest household debt. You get away with this contradiction, because most people don't understand tax efficiency and how taxation really effects the economy, what economic rent is, and the distinction between earned and unearned income. And most people don't understand that higher house prices equate to robbing Peter to pay Paul.

I hope that this stark betrayal of your clear philosophical roots on the issue of land and taxation keep you up at night, as you must deep down know very well that your government's tax policies have placed us on a road to nowhere. And I hope that road to nowhere arrives in time for your newly re-elected government to take the full blame. It will be a silver lining that I will relish as you fall victim to your own inaction on economic reform. Sadly, it will short change the rest of us as well. Such short-sightedness and political expediency.

Even a radical progressive like me was vaguely hopeful that your leadership ascension marked the first chance in a generation for Australia to begin understanding and debating these economic concepts honestly and meaningfully, that we might finally be able to take on the housing and private debt behemoth that puts our whole prosperity at severe risk. That hope was so quickly dashed, that I now figure you must have become suddenly aware of the impending housing crash, and sought to lay the inevitable blame for it at Labor's feet – no matter the cost (even government) – for so terrible would the consequences be, the incumbent party and architect of any reforms would be destroyed politically.

I can only now vainly hope that your real strategy is to change your mind as soon as the crash is underway, the budget well and truly destroyed, and the AAA credit rating gone, claiming that your hand was forced, and we can no longer afford such largesse. What a shame you knew back in 2005 that we couldn't afford it, but refuse to back your own principles. You have become that hollow man that the electorate despise, and that you promised not to be.

'Turnbull's Gearers' enshrined and innovation workers punished. So why bother?

Thus in complete contradiction to your own stated principles and policy objectives, and your past views on negative gearing as a tax rort that drives unproductive speculation, the LNP is taking a rent-seeking agenda to this election. Tony's Tradies have now morphed into Turnbull's Gearers, as though public subsidy of a loss-making investment was the noblest aspiration, one worthy of a new "working family" / "average voter" archetype that we should all be celebrating and deferring our own needs in favour of.

You may think it a clever sleight of hand to conflate unproductive asset price 'investment' with productive investment, but in doing so you underestimate exactly how much people at least understand the concept of speculation. Even a lot of current beneficiaries of negative gearing and capital gains tax discounts can see that government sponsorship of loss making speculative investment is not just inequitable, but compromises our productive economy, because rather than supporting value-added activities, such official bias rewards the exchange of existing assets for speculative gains.

Why would I establish a technology startup with all of the risks and hard work that would involve, when I can simply take out an interest-only mortgage on an investment property, claim negative gearing tax breaks on the inevitable rental losses, and then flip the property for capital gains that are taxed at a lesser rate than my full-time job, interest on my savings or potential real business profits?

That's money for free; a government sponsored Ponzi scheme that acts as a giant disincentive for producing anything of value to contribute to our collective economic fortunes. Where do I sign up? Investors and workers will naturally flock to wherever the greatest returns are, and your government's policies are signalling that they are in housing speculation.

And that's before even considering the extremely high-cost economy that Australia has embraced, in no small part due to the unprecedented escalation of land prices. You would know of course, with your previously detailed philosophical stance on land and taxation, that land is not a tradable good or service, and speculation on its rising price does not generate value in the economy, but rather acts as a consumable good in the real economy, being the largest single input to cost of living and the cost of doing business.

Higher land prices are therefore a millstone around our economic neck. And when combined with the restructuring of the economy to 'make room' for the mining boom, leaving us with an inflated exchange rate and super high cost base, this country has a bad case of 'Dutch Disease', and would be very low on my list of places in which to consider starting a new business, owing to the inability for our 'services' to actually compete effectively in global markets.

Most rational economists and experts in the technology sector agree that the overwhelming structural emphasis on mining exports and housing have over-concentrated our economy, crowding out investment and credit for productive enterprise and innovation. The co-founder of PayPal recently warned that Australia must reduce its reliance on mining and real estate before it can reach its potential in technology investment. I'll take the expertise of a technology genius over that of

a politically cynical Prime Minister and treasurer in charge of property investment.

Further, and to my main point, this imbalanced economy and high land costs are driving talent elsewhere. Business leaders agree that the success of the technology sector is utterly reliant on attracting and retaining high quality workers. Australia has always suffered from the issue of so-called 'brain drain', whereby the hundreds of thousands of dollars spent educating each highly skilled employee is regularly lost in a single stroke of the emigration pen. But the problem has now re-surfaced as chronic, and is a key risk holding back the technology and research sector. If enough workers emigrate, the viability of a whole industry and the supporting infrastructure is jeopardised. And despite the rhetoric claiming the opposite, that is what is happening right now.

The late stage of this record housing bubble has helped destroy our more recent employee advantages of very liveable cities and high wages, as housing affordability and wages growth are now both at all time lows, in no small part due to inflated land prices and a failure for our hobbled tradable sector to takeover from the hollowed out mining / debt / housing / consumption economy. Your innovation agenda, which fails to address any aspect of this broken economic model, and instead continues to reward unproductive speculative investment and punish productive business investment, will therefore drive away the very people you claim will drive the transition to a new economy.

Sooner rather than later the younger generations will realise two critical truths about Australia's rentier economy model, which is fast approaching Banana Republic status:

You are more likely to find a well paid job and career, particularly in the "new economy", in nearly any other developed economy outside Australia. A well paid job and career starts with a productive and competitive economy, of which Australia is rapidly falling behind the majority of other wealthy countries.

You are more likely to afford a home within reasonable commuting distance of a well paid job and career in nearly any other developed economy outside Australia. We have the most household debt, and the highest relative house prices, and as long as there are jobs elsewhere, there's no longer a need to be a greater fool at the bottom of this teetering Ponzi scheme.

If you want to be part of a productive, competitive, vibrant and agile innovation economy, in which there is reasonable prospect of a job and a house – those twin bastions of the Australian dream – vote Labor or Greens at this coming election, who both have a plan to finally begin addressing the former sacred cows of negative gearing and capital gains tax concessions. Otherwise you may be better off looking elsewhere to fulfil that hallowed dream, and simply leaving the rent-seekers to keep selling their houses to each other at ever greater prices, patting themselves on the back for being a clever country – as they sail right off the edge of an economic, financial and social cliff.

Yours sincerely,

Matt Ellis

Matt is an innovation worker and renter, currently considering attractive options for a cheap mansion in one of the world's many well paid inner city tech hubs...