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FINANCIAL REVIEW

Walmart wage hike shows tax cut power

So, less than two weeks after the Donald Trump-led Republican tax cut package came into force, the biggest employer in the United States has announced that its workers "will share in tax savings" by getting pay rises, bonuses and increased employment benefits.

Walmart, which employs over 1 million Americans and is the world's third-largest employer behind the US Department of Defence and the People's Liberation Army in China, says it is giving its workers a pay bump from February, a one-time cash bonus and expanded paid maternity and parental leave schemes. Walmart says it will mean "lower prices for customers, better wages and training ... and investments in the future of our company, including in technology".

And Walmart is not alone. Banks Wells Fargo and JPMorgan Chase also have signalled they will share the benefits from the cut in the US corporate tax rate from 35 per cent to 21 per cent. Car maker Fiat Chrysler is giving out a $US2000 tax cut bonus to its workers. Crucially, both JPMorgan boss Jamie Dimon and Wells Fargo chief executive Tim Sloan have said any wage hikes would not be a giveaway, but the natural result of new investments into their businesses that the tax cuts will encourage, making workers more productive and so sustainably lifting their pay packets.

Even discounting any political theatre in Walmart's move, the early anecdotal evidence backs the theory, as outlined by the Australian Treasury, behind lower company tax rates. Simply put, a lower tax burden on capital attracts more capital. That makes workers more productive, allowing them to command higher wages, especially as the job market tightens. The inconvenient truth for critics of so-called trickle down economics is that this is how market economies work: taxes on capital are ultimately borne by labour.

Rather than growing the pie for all, the critics of company tax cuts prefer to redistribute the pie through regulation or political muscle. In Sydney, the Rail, Tram and Bus Union is threatening a strike of state government train drivers over its demands for a

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24 per cent wage rise over the next four years. Ultimately, this anti-competitive industrial blackmail aims to preserve the union's control over the supply of labour and, in turn, to protect the feather bedding that has built up in Sydney public transport system over generations – and which the NSW government's new rail projects need to undercut. To protect its remaining stronghold, the union will seek to restrict the ability of the transport authorities to find more efficient ways of delivering public transport services. That is, it needs to prevent government services being exposed to the technologically-charged competitive forces that are reshaping the business landscape.

This, ultimately, is the alternative economic model being pushed by the organised labour movement and its political arm, the Labor Party, dressed up in the political fashion of "fairness" and ever-more spending on government-delivered health and education bureaucracies. But, amid accelerating technological globalisation, Australian workers will not prosper through more command-and-control wages delivered through a mid-20th century industrial relations system. Wages will not grow in real terms without a more productive economy and more profitable companies that could be delivered, among other reforms, by a more efficient tax system. That is what the Trump company tax cuts are already delivering in the United States.

A healthier American economy will be good for the global economy. But the Trump tax cuts also threaten to draw capital away from Australia, actually hurting Australian workers. Yet, in the name of fairness, Labor and the Senate crossbenchers refuse to countenance even the Coalition's comparatively modest plan to cut the company tax rate from 30 per cent to 25 per cent by 2025. This is making it more difficult for businesses to provide sustainable pay rises to their workers.

From the Gallery — David Rowe

Welcome to cash-free Australia

Legal tender

The launch of the national payments platform means that Australia could realistically be cash free by 2020 if it wanted to be.

Richard Holden

In 2017 we heard a lot about how rapidly advancing technology was going to destroy a huge chunk of jobs: from bus drivers and postal workers to lawyers and accountants. The eminences of Silicon Valley raised the possibility of societal breakdown without a "robot tax" (Bill Gates) or a Universal Basic Income (Peter Thiel and Marc Andreessen).

This raises a host of deep and challenging questions about adapting to disruptive technologies.

But what if I told you that a technology about to launch in Australia could generate more than $5 billion in free tax revenue for the Commonwealth, make a segment of Australians pay their fair share of tax, combat organised crime, and reduce checkout lines at the supermarket? The New Payments Platform (NPP) – supported by the RBA and 12 other founding financial institutions, and which initially connects more than 50 banks, credit unions, and building societies – will make cheap, secure, 24/7/365 instantaneous payments a reality. It's already live for employees of the participating financial institutions and will roll out to the rest of us soon.

Here's how it works. You get a PayID, which could be a mobile phone number, email address, or ABN. Link that to your bank account and you can make and receive payments through your online banking app, BPAY's "Osko", or other new apps that will take advantage of the platform. No delays, no issues about weekends and public holidays, no waiting, no BSB numbers. You can buy a beer with it, split a restaurant bill, send your niece some cash for her birthday, pay your electricity bill. Anything.

In short, it is the decisive step that makes a completely cashless Australia possible. And it could be done by December 31, 2020. Here's how:

First, the government could abolish the $100 bill by the end of 2018. That's plenty of time for people holding such bills to deposit them at a bank. That represents about 46 per cent of the $73.6 billion of outstanding Australian banknotes. 2019 could be the year retirement year for the $50 bill. That's another 47 per cent gone. In 2020 we can mop up the small change.

This transition would allow ample time for consumers and businesses to adjust to the new regime. In many ways it's just the logical extension of an economy that already relies heavily on electronic payments – from tap-and-go, to BPAY, to Apple Pay.

It would be important to make sure that two groups, in particular, were taken care of: younger and older Australians. Although more than 56 per cent of Australians have a smartphone, and even more have some kind of mobile device, obviously not everyone does. Tapping a debit card would work for most transactions that currently use cash, but for any older Australian without a debit card it would be easy for them to be provided with one either through their financial institution, or even by adapting the pensioner card to have chip technology if that was deemed necessary.

For kids, cash still retains a certain allure, and degree of necessity. Having said that, a large number of school canteens have gone largely or totally cashless in recent years. Still others allow for a transaction-limited tap card. It would be easy to provide kids with a free card that parents could pre-load funds on to. And any older child with a phone would be all set in any event. It's not really different from Opal and similar cards used for public transport. Parents ought to love the digital paper trail about what their children are spending money on, too.

Of course, there would be losers from this change. Drug dealers and other criminals, people who sell cigarettes to minors, they would all feel the pinch. So too would some small businesspeople who take cash off the books and don't pay GST or income tax on a chunk of their incomes. Participants in the black economy differ in the degree of their moral culpability, but it's hard to have much sympathy for any of them.

We're already going after these folks anyway, as evidenced by the ATO's recently announced "data-matching blitz" on cleaning and courier businesses. A cashless Australia would make ATO commissioner Chris Jordan's job a whole lot easier, and cheaper to do.

A comparatively inefficient and more expensive technology in China, WeChat Pay, has led to $US9 trillion ($11.3 trillion) in annual mobile payments there, rivalling the $US13 trillion of cash transactions. Even beggars in Beijing have QR codes and use WeChat Pay. Cash is quickly becoming a thing of the past, and Australia is well positioned to show how it can be phased out altogether.

Most public policy involves tradeoffs and hard choices. Becoming a cashless society by 2020 just requires careful and competent execution. It's a no brainer.

Richard Holden is professor of economics at UNSW Business School.