

WHICH WAY AHEAD ?

There is a tide in the affairs of men, which taken at the flood, leads on to fortune; omitted, all the voyage of their life is bound in shallows and in miseries; on such a full sea are we now afloat; or lose our ventures.

Shakespeare.

The public interest in Tax Reform engendered by the 1998 federal election could hardly be thought of as "lively" at any time, but even that poor level of interest has subsided into public apathy as we await the outcome of the present political impasse in Canberra as one would for some kind of sporting event rather than one having a vital bearing on the future of eighteen million Australians and the economy of the country far into the future.

Beyond tax related demands on the Government born of self interest, such effort as there has been to bring about reform has previously centred on simplifying the tax law and relieving the consequences of complexity in the outrageous cost of taxpayers' compliance with that law, Now it is almost certain that any options we might have had for relief from these irritations are to be effectively closed off by a purely politically generated campaign of change rather than reform.

What prompted the Government to go to an early election in October 1998 with the promise of a Goods and Services Tax as a centre piece is not clear, particularly when a well documented case for a G.S.T. lost the election for the Coalition in 1983. Now, through election, it is shown to have squandered its handsome majority, to have alienated some Party support and stiffened public opposition to the proposal which will almost certainly usher in a period of unstable government. And all of this is in the name of so called tax reform.

Throughout the election campaign, the advocacy of G.S.T. was made to obscure almost every other electoral issue and there are many. Then with scant respect for the Australian intelligence, the Government's election publicity effort reverted to almost breathtaking misrepresentation. The punch line, without specific reference to the G.S.T., invariably read "Not a new tax. A new tax system." This is obvious misrepresentation since we have never had a G.S.T. it is now, quite definitely, a new tax. Secondly, to replace some bad Sales tax and sections of income tax with the proceeds of an equally bad G. S.T. is to leave in place the majority of the present inequitable and ramshackle taxes referred to, even by the Prime Minister, as "Rotten". This "patches" the old system. It does not make a new one and it is not reform.

A "mandate" is a nebulous thing at the best of times but perhaps there has never been a mandate so weak as that which the Government claims having, by accident of electoral redistribution, won an election majority of parliamentary seats with a minority of votes. Surely Governments must govern for people, not parliamentary seats. But having split public opinion down the middle on the G.S.T., foregone the opportunity for real tax reform and flown in the face of half and more of the electorate who voted against G.S.T., Governmental determination has produced a situation of "The Government versus the People," a new and unwelcome development in Australian politics where minorities have rights and substantially over half the voters is a significant "minority"!

The practice of appropriating public funds to publicise Government performance is one which has been creeping into the political scene for some time, but it surely reaches new heights and foreshadows new dangers when a Government can apply millions of dollars to a pre-election campaign of "selling" the G.S.T. under the guise of explaining Government policy when, in fact, it was to

become the theme of the election. The message was clear that "G.S.T. is a good tax but you can only have it if you reelect the Government".

The alarming thing is that this could occur without significant public censure of this reprehensible misuse of public funds for party political purposes. Every small "I" liberal must be concerned at the absence of public protest when even that of the Parliamentary Opposition was simply brushed aside as of no account.

Thus, through the taxation debacle Australia's economic and social affairs may well be at the crossroads and the window of opportunity for real reform appears about to close.

When the Prime Minister launched his Goods and Services tax, the Leader of the Opposition was quick to state that by any means possible the Opposition would torpedo the Tax Package when it came into the Parliament. It prompted the Sydney Morning Herald to present a scathing editorial on May 16, 1998 referring to the Oppositions threat as "an act of political and constitutional thuggery" and further "it is an attempt, moreover to condemn Australia to a third rate system for the foreseeable future" There was more to come. The Herald continued "If the Opposition should succeed the result will be that the present ramshackle and inequitable system will be maintained and made increasingly inequitable for P.A.Y.E. taxpayers".

But Australia's present taxation system didn't become "third rate, ramshackle, inequitable and inefficient" overnight. Since we have never had anything which could properly be called tax reform the system has obviously been in this sorry state for a century, other than to have been made a little worse for the addition of provisions like Capital Gains Tax, Fringe Benefits Tax and duties on financial transactions. Certainly the first two of

these are justified in principle but both have added more complexity and, in the case of Fringe Benefits, a veritable administrative nightmare. Both had their origins in attempted avoidance of tax seen to be unreasonable.

The question is "How can a tax system be so bad and tolerated for so long?" The supplementary question is "For how much longer must it continue?"

As to the first of these questions, the fact that multiple taxes and income systems have been universally used for so long leads to inertia, apathy and fear of change. Nevertheless, for a hundred years, and here repeated, the case has been made for a single tax having all the virtues to which the reformers aim; its principles are unquestionable, the broad benefits obvious. If the detailed changes to which its application would give rise are not at this stage clear it is only that they have never been studied in the necessary detail. That, surely offers insufficient grounds for passing up the potential benefits of a simpler, fairer tax system. How much longer we must suffer injustice and inefficiency may become clearer with whatever resolution comes out of the present Parliamentary impasse to remain unresolved until well into 1999.

Certainly, even without G.S.T. the criticism of the present tax regime is completely justified. But how are these matters to be put right when the principles are wrong. The best way, indeed the only way to make good the deficiencies noted by the Herald is to abolish present taxes altogether in favour of a single tax based on logic and equity and in application so direct and simple that the terms of the Herald's criticism cannot recur.

Consideration of the Goods and Services Tax might well begin by recalling a statement to the British Parliament by William Pitt (1759-1806) who said "There is a method whereby you can tax the last rag from the back and the last bite from the mouth without causing a

murmur against high taxes. That is to tax a large number of articles of daily use so indirectly that the people will pay without knowing it. Their grumblings will then be of hard times and they will not know that the hard times are caused by taxation." Perhaps the Government hopes that, at some time, the new tax can be merged with the price of goods and services and, like the people of Pitt's day, we too will be unmindful of the tax we pay!

Pitt's remarks were obviously confined to goods. Indeed, in his time there were few "services" as we know them. But at a time when our manufacturing industries are declining and the service industries are playing an ever increasing part in the nations affairs, including employment, to move into a Goods and Services tax is to open up a significant source of new revenue. It is clear from the Prime Minister's own statement that the need for increased revenue to fund expansion of Education, Health and Social Services underlies the enthusiasm for G.S.T

Goods and Services is a bad tax. It meets none of the criteria laid down by Industry and Commerce for required tax reform. Where the demand is for simplification, G.S.T. adds a new tax with new complexity. We have little knowledge of the cost of compliance or of who pays. It shifts some taxes from production, which is beneficial, to consumption which nullifies the effort. Production and consumption are two sides of the same coin. To discourage consumption by taxation, as we surely will, is to inhibit production and employment; living standards are bound to fall. The new tax will lay an added burden of cost on the lower income earners. It cannot be distributed equitably across the entire spectrum of income diversity. It will do little, if anything, to encourage productivity and nothing for the relief of unemployment. It promises relief for P.A.Y. E. taxpayers, acknowledged as paying too much as a result of the inflationary effect on their pay packets. It than recoups that lost revenue from their consumption.

The Goods and Services tax at 10% is low by comparison with similar taxes elsewhere. But the general experience of almost every other country having a G.S.T. is that of an early rise - or rises - in the rate. Our Government has assured us that cannot happen here because of an in built mechanism under which the agreement of all State Governments is required before the Commonwealth can lift the rate of tax. But the States have become the beneficiaries of the G.S.T. generated revenue and with their well known perpetual hunger for more spending money, who is more likely to approve an increase in the G.S.T. rate than they? The deal of that kind is like appointing Dracula to manage the blood bank! Wait for the broken promises.

In a hard hitting document presented by the Australian Chamber of Commerce and Industry as it's "Review" for August 1998, we are left in no doubt about what should have priority in the programme of the new Government. The document arises from a pre-election survey of business and industry across the nation by Australia's most reputable business organisation with a membership of 350,000 firms and covering some 80% of private sector employment. Industry and Commerce seek relief from complexity and the enormous cost of compliance through simplification of tax law.

Headed "What Business seeks from Australia's new Parliament", the survey must be taken as a fair, responsible and objective statement of business expectations. It wastes no words "It is Tax Reform" that business seeks more than any other. Fixing the Tax System must be the highest priority for Government" says the Chamber, and follows up with emphasis that "The tax System is, without question, the single greatest priority for Government. It is where changes are most needed".

Having characterized the Tax Act as "an incomprehensible mess" there is an addendum. **"And it is**

reform which is needed, not further amendment of the existing chaotic system" (emphasis added).

It is the mistaken presumption that there is no way of raising national revenues other than to apply arbitrary taxes widely distributed wherever it is appropriate or convenient. Until that view changes we are irrevocably tied to complexity and high compliance. But the Government is deaf to representations to reduce the number of heads of taxation for the simple reason that it would necessitate increased rates on the remainder. That would be politically unacceptable.

Unless reform is to be wide spread, without G.S.T., there is no room for reform of this kind and the hopes of Australian business and tax lobby groups must be set aside until another day — maybe half a century away!

It is pertinent to remind that the objective of this volume is to bring about the much desired end to complexity, high cost of compliance and other irritations in the tax system. There are benefits in addition, readily available if the voting public can be interested.

All of this underlines the importance of getting in proper perspective the warnings of the Treasurer and the Leader of the Opposition, firstly that "After this major reform (?) another opportunity may not come for a very long time". The Leader of the Opposition offered his personal conviction that once G.S.T. is in place we will never be able to get rid of it. Thus, through the taxation debacle Australia's economic and social affairs may well be at the crossroads and the window of opportunity for real reform appears about to close. It is therefore imperative that, as a people, we should look more carefully and objectively at tax and tax related matters. If we are to have tax reform we had better get it right the first time !

In addition to the inevitable delays of the Parliamentary process, G.S.T. is assumed to face a long

gestation period. We therefore have a time of political uncertainty ahead and, apparently, a last chance to examine more closely the whole tax situation before we are irrevocably committed.

Could this be the "tide" in our affairs that we must take at the flood to assure our national fortune or do we make the mistake that consigns our society to the "shallows and misery"?

The statesman's decision would be to put G.S.T. on "hold" and, with the States, the Commonwealth should institute a study of present taxation and its effects on social affairs side by side with an evaluation in depth of the alternative Land Tax. For that purpose only a Commission of Inquiry will do.

It is time we sought input from the experienced and capable people outside the realm of party politics and to enable the taxpayers to know vastly more than presently issues from behind the closed doors of the Treasury and Cabinet. We are dealing with the lives and aspirations of eighteen million Australians and the future of a nation. They have a right to know.

Such an inquiry would go far beyond the capacity of a Senate Committee whose inquiries are conducted on a part time basis. Senate Committees are constituted by members of all political parties in the Parliament which indicates a deep party, as well as public, interest in the subject and a possible conflict of interest appears. The suggested inquiry must be beyond party political or sectional interest. Nor is the inquiry a proper subject for a Canberra "Summit" where representatives of special interests, mostly business, and perhaps the Social Service lobby, meet to pursue what is, admittedly, their legitimate business of optimizing the conditions under which they conduct their businesses. Business is little concerned about the social effects which might flow from their

deliberations. The Welfare lobby works for the victims of bad social conditions rather than against causes.

If there is any reservation about holding an inquiry, let us recall that we have had many inquiries in recent times, none of them nearly as important as this. If there is a thought to reject it because of cost, note that the potential annual savings from reform considerably exceed the "one-off" cost of even the most all embracing inquiry, without considering the value of social benefit. Further, the matter is put in perspective when set beside Government expenditure of some \$10 million advocating a G.S.T. to which half of the Australian people do not subscribe. But the cost of NOT inquiring into the matter is to leave unanswered the question on many minds as to whether this nation is not becoming third rate in its institutions and attitudes.

The proposed Commission should consist of three Commissioners of undoubted intellectual independence with the ability to maintain complete objectivity in dealing with new concepts

The terms of reference for the Inquiry should be limited only by relevance to the matters under inquiry. Features of the present tax system which make reform imperative must be identified to show, without doubt, that the required reforms are unattainable under present principles of multiple and income taxes. Moving the tax base to the land is administratively sound. It would be for the Commission to examine the potential effects and consequences of the change.

The Commission should have power to call witnesses and examine records in order to avail itself of the knowledge and experience of the relevant Public Service within whose departments rest the statistical material essential to detailed evaluation.

I remind that in the foundation days of the A.L.P.

their major conference declared "Destruction of the land monopoly is the first step to obtaining economic reform, and the first plank in the programme platform should be land values taxation".

Perhaps the Australian Labour Party did itself and the nation a disservice by dropping that plank from it's platform. Maybe the A.L.P. could now have second thoughts!

Primarily the subject is tax reform. But the effect of taxation on the nations social condition cannot be overlooked as of lesser importance.

Two of Australia's greatest problems are undoubtedly economic growth and, dependent on it according to the conventional wisdom, is the hope of relieving the unemployment problem. Earlier chapters outline the scenario of how trade, industrial and personal prosperity can be attainable through abolition of income and company tax.

Apart from that, great changes are taking place in the country's affairs arising from increasing population, the development of technology, changing patterns of work and employment, the outcome of widespread deregulation and the globalization of the world economy. Ahead of us there is a possibility of further loss of domestic control if we find ourselves obliged to subscribe to the Multinational Agreement on Investment now under negotiation.

Our health and education systems are under funded and the result shows up in bed closures and waiting lists for one and for the other a serious downturn in levels of literacy and numeracy. Our industries continue to fall under foreign ownership so that our national trade policies are being decided abroad. The brain drain is real; some of the best of our academics and scientists are virtually forced to go abroad in search of career opportunities. There is widespread breakdown in family life, the very cement of

society. Drugs are an enormous menace, crime is on the increase. Already one in three of our population is receiving some Government (taxpayer) assistance and the welfare state steadily advances to destroy the initiative and independence of our people.

How much of this is tax related in a way which might be revealed by an Inquiry?

Land tax touches the fringe of the land problem when the world is becoming increasingly aware that that problem lies at the base of the great majority of the worlds economic and social problems. The demand for land rights will continue until every citizen understands, that he has a basic right to share equitably, directly or indirectly, in the bounty of the earth. Let us not, through fear, refrain from asserting that right.

There are many countries around the world where even this degree of restoration of land rights to the people appears impossible. Happily, Australia is not in that position and we can with ease, and in justice, correct perhaps the most long standing denial of basic human rights. In time, we could establish for our nation moral, as well as economic and social leadership. We can, in fact, tax ourselves into prosperity!

On the other hand land tax logically applies to a measured service which the individual receives from the community. It is equitably distributed according to the quantum of advantage which the possession of land gives the taxpayer. Best of all, against the present environment so open to evasion, land tax cannot be evaded.

Enough has been said to indicate the potential for successful reform through land tax, but a reform programme of the magnitude suggested affecting the nation in so many ways must obviously be examined down to the most minute detail if potential is to be turned into certainty.

There must, inevitably, be a vocal "downside" as land monopolists, traders, speculators would be deprived of their greatest unearned privilege to exploit the landless. Study will indicate that it could be smaller than anticipated and for a good deal of it there would be ample compensation in the abolition of all taxes on legitimate earnings.

If there is to be equity in a land tax system it seems essential that present land values be reviewed. The value of rural lands bought in the hope of rezoning to residential may need to be looked at in relation to rural productivity together with some review of the valuation appeals procedure.

There is the problem of the "asset rich - cash poor" the value of whose landed property has risen over the years through civic development, scarcity, inflation and speculation. But the gains are unearned increments and, in any case, must sooner or later meet Capital Gains Tax. The problem is well known to Local Government.

It is time that reciprocal tax agreements with other countries were reviewed and there may be problems with Australian land foreign owned. If land tax finds favour, the bigger questions must come in for attention the mechanics of changing from one system to another, who administers the system which would then absorb State and Local Government revenues. There could be a new solution to the perennial problem of division of the revenue between Commonwealth and States.

But these and other tax related questions would naturally arise from the deliberations of the inquiry.

If, by mischance, we are to have a Goods and Services Tax and the tax reform manual is closed it will only be for the time being. The well being of the people demands reform. Agitation for a simpler, more equitable and therefore more just system will continue for however

long it takes.

Let us do NOW what, at some time, must be done.

This text began with a quotation from Shakespeare - "Make no small plans. Such plans do lack the heat that kindles flame". It closes with an extended, but apt, paraphrase from the pen of one, Daniel Burnham, 18th century American Architect and Town Planner "Make no small plans; they have no magic to stir men's blood and probably, themselves, will never be realised. Make big plans! Aim high and hope and work remembering that a noble plan, once recorded, will never die but long after we are gone will still be a living thing asserting itself with ever growing insistence.