

THE GOODS AND SERVICES TAX

Economists at Monash, the National University and other places have already blown holes in the tax reform package devised by the Opposition to win the next Federal elections. It intends to abolish only seven of the 70 taxes already inflicting the Australian community.

According to A.N.U.'s Dr John Quiggan, by 1995/96 five per cent annual inflation will have reduced the real gains of everybody now on an income below \$35,000 a year to less than three and a half per cent of their taxable income. Those on \$50,000 to \$100,000 will gain between six and seven per cent. Gains could well be adversely affected by the proposed \$10 billion cut in government expenditure. This could be most severe on the under \$35,000 income groups comprising the bulk of the voting population.

Monash Economics Professor John Head is emphatic that the benefits of the Goods and Services Tax (GST) and the rest of the package by the Federal Opposition are greatly exaggerated and totally unproven.

Australia is near the middle of the range in terms of the percentage of the Gross Domestic Product absorbed in government activities – and thus in the scale of taxation needed to be imposed – by O.E.C.D. countries. Regretfully Australia is near the top in the percentage of tax taken from the pay envelopes of middle income earners. Once the most egalitarian of all developed countries we are now berated as the least egalitarian, mainly because of dividend imputation negative gearing, trust and other tax concessions to top income earners.

The Opposition's proposed GST, with all its exemptions and promised side benefits could accentuate rather than ameliorate this inequality. Professor Head is adamant that the economic management risks and dislocations of the Opposition's proposals far outweigh any likely benefits.

Tax Reform Australia applauds some of Dr Hewson's approaches to fiscal reform, e.g. abolition of payroll tax, but

we also believe in social justice. Without a true vision of Commonwealth the nation perishes.

The Opposition seems to be banking on tame-cat union submission to its macro-economic reforms, no doubt much needed on the wharves and other areas of transportation. It is also somewhat naive in believing monopoly pricing does not exist in the huge area of goods and services at present untaxed. This must accentuate the Opposition's projected four and a half per cent price rise to flow from a 15 per cent GST.

The Opposition's well-intentioned attempts to compensate welfare recipients from the adverse effects of GST are fraught with difficulties, particularly in a heavily monopolised and tightly restricted market.

The only path to true tax reform lies in the collection of the economic rent being obtained from owners of scarce resources. The doyen of Australian economists, former Governor of the Reserve Bank, Dr H. C. Coombs, is emphatic that the free enterprise system will be preserved, not harmed, by the collection of the unearned increment from monopoly ownership of land and other natural resources. That is the tax reform road Dr Hewson and his colleagues should be travelling.

Morris Williams,
President, Tax Reform Australia.