

Less Fuss, but Few Gains, as Goose is Plucked

| [Alan Moran](#)

The Australian 11th May, 1999



At the Australian Unlimited dinner, the Prime Minister has reminded us, that the GST debate was ignited just before his election to Parliament with the 1974 Aspery Report. It has dominated Parliamentary proceedings for the past two years. Will the GST finally be torched in the next two months?

In making the GST the centrepiece of its tax reform program, the Government gave immense power to minorities in the Senate. And oh how they have basked in this! Senator Harradine arrogates to himself all the dignity of the great custodian of national morality. He uses his balancing vote to extract greater taxes and regulatory influence from those he thinks can afford the costs to those he thinks of as poor as well as to the mendicant state he represents.

Never mind that the concessions he wants will only reverse the progress towards diminishing the numbing hand of government, progress which has insulated Australia from the backwash of the Asian crisis. Never mind that the changes he and the Democrats want will introduce a complexity in the tax system, the combating of which is a main goal of the GST. Never mind that his demanding legislation against internet porn would cripple the IT industry and still fail to stem the inflow of noxious web traffic.

Senator Harradine has only the slightest understanding of how an economy works and the consequences of taxes and regulations designed to help one group on the activities of those adversely impacted by them. And no mainstream politician dare reveal his cant for the humbug it is.

A GST means the taxpayer goose makes less fuss as it is being plucked but offers only slender efficiency benefits. It just shifts taxes rather than allowing reductions, which require lower spending. For every GST winner there must be a loser unless the shift generates a productivity dividend. Such a dividend may result from a net decrease in the distortion on demand and supply when a low tax rate on almost all goods and services is substituted for higher and variable rates on goods. But the more the exceptions and offsetting concessions, the less likely is such a dividend.

The point about a GST, and the cause of an apostasy on behalf of previous champions like former Treasury Secretary John Stone, is that it offers a means of raising revenues relatively more easily than existing taxes. We are nearing a limit of toleration for the tax rates on goods and raising more taxes on income faces both a voter backlash and a potential harmful loss of competitiveness.

While a disadvantage of the tax to those seeking smaller government, this is the very reason why ACOSS lent support to the concept almost a year ago. They, like Fergus Ryan, the Chairman of the Business Coalition for Tax Reform, saw the existing system as unable to raise adequate funding. Mr Ryan said, *'If we stick with our present tax system what hope will we have to meet the even greater demands in ten, twenty or thirty years as the proportion of non-working and non-taxpaying people grows?'*

Hence a GST offers the panacea to tax growth but tax growth is a meretricious goal to those who seek smaller, not larger, government. If governments have the ability to tax, especially in ways that don't cause the geese to squeal, they will find any number of worthy spending directions.

This brings us back to the irony of the current GST debate. Those purporting to champion the poor and seeking increased revenues are the very ones jeopardising the prospects of a GST, which offers them the best chance of raising the necessary revenue. For others, the GST is not fundamental to tax reform and its increased taxing capacity makes it dangerous. This suggests it should be abandoned unless it is applied universally, thereby offering efficiency dividends.

Abandonment is not time wasted. Lord Skidelsky, the Tory Treasury spokesman recently reminded us that politicians get elected to override individual preferences and those like the Swiss, whose Parliament sits for only three months a

year, do less of this than others. In the event of no GST, one service the debate has rendered Australia over the past three years is that it has diverted a great deal of political energy away from undermining the wealth creating process.

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