

GOODS AND SERVICES TAX

Address by the Hon Gareth Evans QC MP, Deputy Leader of the Opposition, to the House of Representatives, Canberra, 28 May 1998.

Mr GARETH EVANS (Holt-Deputy Leader of the Opposition)(4.18 p.m.) - This is the week that the Prime Minister (Mr Howard) confirmed that his promises have a use-by date of three years max. They are not for actual delivery; they are there to get you through an election campaign and, after that, all bets are off. The Prime Minister's spokesman certainly has the line right. He was quoted in yesterday's Australian as saying that the government:

. . . will obviously go to an election with a health policy to win.

Whatever happens after that is hypothetical.

This is the week that, as a result of yesterday's extraordinary concession from the Prime Minister here in question time, the Prime Minister's credibility-poor, shrunken, wizened little thing that it was to start with-finally shrivelled and faded completely from sight. This is the week that the whole country stopped to chortle as it watched the Prime Minister twist, spin and writhe to escape from a trap absolutely of his own making with an election promise he obviously never meant to keep.

The core and non-core man became the never ever man, the man for whom `never ever' means `three years'-`eternity', presumably, means `three and a bit'. This is the week that has confirmed, if any further proof was needed, that not only have Howard promises a three-year use-by date but the Howard government has reached its use-by date. You can survive a lot of things in politics-frontal and sideways assaults, even assaults from behind-but one thing that you can never survive in politics is ridicule; and, boy, is there a lot of ridicule around right now!

All that said, we do have to stop laughing and get serious because the issues that are underlying this tax and GST debate and which have come to the surface this week are deadly serious so far as security and opportunity for ordinary Australians are concerned. What kind of tax system we have does impact very directly on what kind of revenue the government can reasonably generate, what kinds of services it can provide. It impacts on whether low and middle income households have enough disposable income not only to provide for the necessities of life but also to enjoy the comforts of life and to take advantage of some of the opportunities that life can provide.

The tax system impacts on whether we can provide jobs for all who want to work. The tax system impacts on whether the business community-small as well as large-can operate effectively and competitively and contribute to the prosperity of the nation. It impacts on whether we have inflation and

interest rates that are under control, not out of control. It impacts on whether we have saving rates in the community that make it possible to cope with current account problems, to reduce our reliance on foreign capital flows.

We in the Labor Party do understand the need to have a tax system that not only is fair and just but does actually work in all these ways for the benefit of the country for all Australians. We do have a very clear idea about some of the present problems in the tax system that really do need attention, including the continuing scale of tax evasion and avoidance, especially through devices like Senator Parer type family trusts and through the continuing erosion of the PAYE system as a result of people who are really employees setting themselves up in various legal guises as independent contractors. There is the problem of ensuring that average weekly earners do not creep up into indefensibly high tax brackets.

Above all, there is that problem which Ted Evans so articulately indicated in a statement just a few days ago, the problem that is far more important than any aspect of the indirect tax system, and that is the problem of low and middle income families losing 80c or more of every extra dollar they earn through the combined impact of the tax and social security scales—a problem that we will be addressing, as the leader has said, in a way that really does provide security and opportunity for Australian families with our proposed tax credit for working families.

There are a lot of other issues going to the renovation, repair and renewal of our tax system about which we do have a genuinely open mind. What we do not have an open mind about is a GST, which we will continue to oppose in or out of office. At the heart of our objection to a GST is the sheer unfairness of it all-of increasing the tax burden on lower and middle income earners through a new, flat rate, regressive tax of 10 per cent or more on literally everything they do or buy. The winners with any flat tax rate are those at the top of the income tree; the losers are all those lower down. An extra \$10 for a day at the football does mean a lot more for a process worker's family than it does for a politician's, a lawyer's or a dentist's. That is the truth of the matter.

That unfairness is made much worse the higher the flat rate is. That unfairness is made worse if you have few or no exemptions, in the way that the government is proposing. For example, if it is the case that rent is not exempted, you will have a situation where lower income persons in this community, for whom rent constitutes on average something like one-third of their disposable income, will have a further tax of 10 per cent or more on that rent and will have pathetically small resources available for the necessities of life and absolutely nothing available for enjoying life's comforts and opportunities.

That unfairness is made worse again if, in getting to a flat tax rate, you wind back to the same flat level of 10 per cent or so the higher differential rates that presently apply to luxury goods. That unfairness is made worse when any purported compensation package fails to fully compensate individuals—through the tax system, through the pension system or through some other way—for what they lose at the checkout counter through the GST. And no compensation system that has ever been devised or promoted has got that right for everyone.

That unfairness is made worse when, as inevitably happens and as has happened in 21 out of 23 OECD countries, the tax rate leaps up and any purported compensation package fails to keep face. That unfairness is made that much worse again if the GST is used to accomplish any significant kind of tax mix shift from direct to indirect taxes with tax cuts for the rich being paid for by the poor at the checkout counter.

All that is at the heart of our objections to a GST, but that is not where it stops. It extends to a lot of the other issues that have been raised now, particularly by the business community. This is the week of course that big business, through the Business Council and its coalition, made clear not only its support for a GST but it would be actively campaigning for the coalition against Labor on this issue. Well, Stan Wallis and his fellows are supporting the Libs, loving them

more than loving us. Hold the front page. That is news. That is big news.

This is not a campaign that spooks us. This is not a campaign that spooks us because we believe that it will take more than a multimillion dollar campaign by the top end of town to persuade ordinary Australians to trust Howard and Costello to put their hands into our pockets for a GST. But it is a campaign that we are prepared for and will answer on its own terms, and these are some of the things we will be saying about that business campaign. We will be saying, firstly, as an economic extension of the unfairness argument, that if big business is going to as a result of a GST have a lower overall indirect tax burden that can only mean that households will have a higher burden. There are only two tax paying sectors in the economy-that is, business and households-and if you assume, as everybody does, that there is not going to be any reduction in the tax take in this area then this is a zero sum gain in which business benefits and households lose.

There are of course circumstances in which what is good for business is good for the wider community. Henry Ford had something to say about that some years ago. But there are limits to that and you cannot reasonably expect battling families to be very happy about paying at the checkout counter for huge executive salaries and massive increases in shareholder profits.

What big business thinks maybe is in its interest is not again-and this is the second thing we will be saying-in the interests at all of small business. When there are now going to be one million small businesses-not 75,000-applying and implementing this system, when the compliance cost for those small businesses is going to be relatively about 30 times more burdensome than it is for big business, as the OECD has told us, and when it is going to cost on average about \$7,000 a year to start up and run the system for small business, you have a situation where small business is very clear indeed where the competitive advantage lies with the introduction of a GST.

The third thing we will be saying, and this is very important, is that we will be questioning whether a GST really is on any view in any context in the interests of big business at all. We will be saying that for these reasons. On all available evidence, there is no evidence at all anywhere in the world that a GST does actually contribute to overall activity and job creation. That is amply clear in the services sector. How does it help business to have a tax on families which reduces their disposable income and stops them buying? That should be amply clear. There is no

evidence that a GST helps private savings, and Ted Evans blew the whistle on that.

Above all, there is the overwhelming evidence, and we heard it again from New Zealand today, of the Viagra effect of a GST on inflation and interest rates. You cannot get a better demonstration of the Viagra effect than in New Zealand where up, up, up went inflation by eight per cent and up, up, up went interest rates by 10 per cent. Not only that, it stayed up there with interest rates, and it was only about a year later that it started to come down again to about 19 per cent.

The truth of the matter is that a GST equals higher prices, equals interest rates. A GST is not inevitable. It does not have to happen. It is in nobody's interest-business or anyone else in the community-and we in the Labor Party will do absolutely nothing in or out of office to make it happen. (Time expired)