

## **The Liberals Won't Tax Gold**

*John Hyde*

The Federal Opposition's votes against the Government's legislation to tax income derived from gold mining, were not important in themselves. The Democrats will ensure that the bill carries the Senate, the Libs did not promise to repeal the tax and, although it is surprising how quickly hundreds of millions of dollars add up, the revenue involved is only a few hundreds of millions. But, as a portent of the approach of a future Liberal and National Party government, the episode is cause for concern.

If the Federal Liberals really believed in what they did, there would be much less reason to worry about them. It seems, however, that they opposed the gold tax to gain advantage in the coming Western Australian election, and to spite a leader they will not support but cannot replace. Such pettiness, and such spite, merely demonstrate their unfitness to govern. What has happened to the sense of mission and respect for principle which guided them during most of the last parliament? Where are the 'dries'? For that matter, where are the 'wets'?

That they knew they did wrong is clear from their own utterances. Having expatiated on the virtues of flatter tax, they cannot plausibly plead ignorance of the advantages of a tax base and rates which do not discriminate between potential taxpayers. The arguments they are using are nonsense. The valid arguments against direct taxation in general should not be applied selectively to gold and are ridiculous from the mouths of people who oppose broad-based indirect taxation.

Further, the pretence that the issue is one of tax payable by incorporated gold miners is disingenuous. Ultimately companies don't pay tax---people pay---and dividend imputation allows investors in corporations to deduct the tax paid by the corporation---no tax paid at company level means no tax deduction at investor level. The principal consideration is unincorporated gold-miners. These people not only avoid tax on income derived from gold, but often on other income as well. By debiting a gold mine's expenses---wages, fuel and motor vehicles for instance---to a wheat crop or wool clip, income which really comes from another industry also escapes tax. Although illegal, this is impossible to prevent,

and the farmers feel entitled to the same advantages as gold miners.

The economic objection to an industry paying less than its share of taxation is much the same as that of having an industry, such as coal or oil, pay more than its share. The tax inequalities drive investment from the high-tax industry to the low. Comparative advantage is ignored, and GDP shrinks. Then, either people accept lower living standards or gain temporary respite by borrowing from abroad. The consequences of tax exemption are, thus, like the consequences of tariff protection.

I would have thought that this was obvious, if a Dicky bird had not told me of a Liberal, who prides himself on dry credentials, arguing that gold should be exempt from tax so as to improve the balance of payments. He should know that government policies which favour one Australian producer over another can improve the balance of payments only in the short run, and then only because they reduce living standards. To reduce our foreign debt, lower living standards may be necessary in the short run, but import taxes or export subsidies----unlike deflation----foster inefficiency and make the pain permanent.

If, as they claim, the Liberal's objection to taxing income derived from gold is part and parcel of their objection to all taxation, they might consider a variation on their theme. The variation I have in mind----one tax-free industry---should meet their basic requirement. It will avoid the economic costs of present arrangements, be popular and simple. I suggest they put the names of all industries in a hat and draw one out each year----steel this year, perhaps wool the next, and so on. (To avoid misunderstanding, they would be wise to leave politics out of the draw.)

If the Libs adopted my suggestion, the deadweight cost of lobbying would be avoided, since, in the absence of unthinkable dishonesty, lobbying would be ineffective. Unable to predict the draw, investors would allocate resources according to expected before-tax earnings thus avoiding government-induced misallocation and waste.

We can but assume that the Liberal MP's lack of concern for the efficiency of the microeconomy was in this instance deliberate. Economic efficiency was simply less important to them than a WA election which, because of the WA Inc. affair, the Liberal Party is already odds-on to win.

One Liberal protested to me that the Federal Opposition is no more irresponsible than Labor was when it was in opposition. That is true, but he implies that the Libs intend to follow Labor in breaking its undertakings on assuming office. This is not a good portent.

Even though many of the things the dries fought for have become government policy, the spirit of the dries within the Liberal Party is seemingly dead. I fear it was mortally

wounded by the Joh-for-PM campaign, the loss of the last election, the volumes of unfair criticism and bad luck. The the Liberals now believe in nothing---least of all themselves.

It is easy to understand why Mr Hugh Morgan uttered his *cri de coeur* calling for better Liberal MPs. But the Liberal Party's problem is not the quality of its members, nor is it the quality of the leadership. The Liberal's underlying weakness is lack of faith. When even the most talented people do not believe in what they are doing, they become a rabble.

The gold-tax episode merely demonstrates the party's want of guiding principles. No political movement can survive without core beliefs. If Liberal MPs do not re-establish a guiding philosophy, then the Liberal Party will fragment like all of its predecessors.

ENDS