

The Liberals' Tax and Spending Policy

John Hyde

Criticism of the Opposition's Tax and Spending Policy should be tempered by the knowledge that the Opposition can, and probably will, change its mind. The Government has not published a detailed fiscal policy--nor is it likely to. It will not do so, because it has not made up its mind yet, and because Treasury cannot yet tell the Treasurer enough to allow detailed detailed estimates.

Oppositions do not have the resources to successfully play at budget making. When they try, they tend to lock themselves into regrettable (some would say irresponsible) promises. Remember that, once it was elected, Labor cried a \$9 billion foul and cancelled all its promises.

The present Opposition's fiscal policy statement should be interpreted as no more than a broad indication of Opposition intentions, courage and economic realism.

Its analysis of Australia's economic dilemma is conventional. "The principal economic challenge...is to restructure our economy to deal with external debt....We are entering a self-perpetuating debt trap....Australia urgently requires a major shift of resources into the traded goods sector....To achieve this task we need to contain our consumption levels; to boost savings; and to boost our productivity and production by engendering a period of sustained investment principally in the traded goods sector."

The policy statement should be judged against the Coalition's own assessment of the problem, but one should concentrate on the broad thrust, knowing that the detail will be swamped by unpredicted events. When that is done it is easily seen that it does not adequately face the problem of how the Australian people are to be induced to save more of their incomes and consume less of them. It is better when it discusses how those incomes are to be increased.

The glaring omission, at first (and possibly final) reading, is the absence of any real attempt to deal with the penalty that direct taxes impose on savings. However, in this,

unlike "Future Directions", there is nothing that says the Coalition will not introduce a broad-based consumption tax. Indeed there is this sentence: "We will reform the existing ramshackle indirect tax system to remove the inequities and anomalies that have arisen over the years."

All the inequities and anomalies I can think of derive from the narrow base and variable rate structure. If the base is widened and the rates standardised up rather than down, consumption tax will raise a lot more revenue and allow direct taxes to be reduced.

The promise to "Reinstate tax deductibility of farm business electricity connection/upgrading" would appear not to be related to reforming the existing ramshackle indirect tax system. Nevertheless, in a document which is remarkably free from National Party nonsense, that may have been the *quid pro quo*. If so, it was a cheap price to pay!

The proposed budget surplus, which will be largely offset by State deficits, seems inadequate to encourage any substantial reduction in interest rates. By the time that the policy is given effect interest rates may be falling and Australia may be in a recession, but the current account will still be in deficit to the tune of, say, \$1000 million per month. A much larger surplus is called for, even if that means forgoing the tax cuts for a while.

People adjust their affairs to an existing tax structure, therefore the adage that "an old tax is a good tax" has point. There is a cost in change itself, and tax systems ought not be fiddled with except where there is a clear and substantial benefit from the change. The promise to replace capital gains tax with a speculative gains tax would, by this criterion, seem to be counterproductive. The cost to the revenue of \$450 million per year is \$450 million which could have been employed to reduce income tax and company tax. This was perhaps another National Party sop.

The most interesting feature of the proposed budget cuts is perhaps the ease with which they are made, in the absence of any cut in health expenditure. There has been much nonsense talked about \$2000 million potential savings in health care. There is, nevertheless, the possibility of transferring substantial costs of health care from the taxpayer to private purses by scrapping Medicare and re-allocating the costs of health insurance. Sir William Cole, writing for the Australian Institute for Public Policy, estimates that savings of \$800 million could be made without prejudicing poor people.

Over half the Coalition's budget savings are to come from one item--the \$1500 million saving in unemployment benefits, achieved by limiting unemployment benefits to nine months' duration. This must be seen in conjunction with the Coalition's labour market reform proposals. It would have been unfair, had the two parties intended to persist with awards which prevented people from accepting gainful employment under conditions which an employer would meet. The Opposition IR

policy together with this measure should virtually eliminate unemployment of longer than 9 months duration.

The Coalition also promises a family package. Here too the policy is a mixed bag--a bag that manages to absorb nearly all the savings from expenditure cuts. Tax rebates for families with children--cost \$1000 million--are unambiguously pro-family. But a non-means-tested rebate for families that have two incomes and put their kids out to pasture in child-care facilities--cost \$620 million--is hardly pro-family. It may, however, encourage more people into the workforce, thereby increasing production and the ability to service the debt. So might the more generous eligibility for the dependent spouse rebate--cost \$200 million.

The overall thrust of the policy is thus pro-employment rather than pro-family. Future Directions has taken a back seat.

The policy falls well short of a solution to the problems it outlines. Nonetheless, it is an advance on the government's position and some of its decisions are quite brave. Sir Humphrey Appleby might even describe the abolition of the Australia Council as courageous. Most important of all, the policy does not lock the Coalition into much that is counterproductive. Two Cheers!

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