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A few days of play acting and ego massaging at a tax summit may let Mr Hawke legislate some sensible tax changes with less political pain than would otherwise be the case. By pretending that the summit meeting represents all citizens, Mr. Hawke may be able to confound some of the vested interests among taxpayers and the warring sects of the Labor Party. He may thus avoid the sort of servile back down which the retailers forced upon the Fraser Government when John Howard's tax reforms were first in contention. This is a noble enough object in itself but it is not clear that that is how the tax summit will work out.

Hawke's summiters will not be disinterested tax experts, nor will they find time to study tax theory, nor will they be able to instruct each other. Notwithstanding the cackling which will follow their meeting, they will not have laid the new tax egg. Hawke's hope is that they will accept responsibility for an egg, in fact laid by the government, only after the government had been attended by the ACTU and some other summiters in private; the real sives of the chick becoming apparent only when in the fullness of time it hatches. This was how the economic summit was stage managed.

Our reasonable hope is that a tax system so produced will be less inequitable, less damaging to the economy and less costly to collect than the one we have now. However, as each summiteer represents a vested interest, his influence, if employed at all, is likely to defend a tax privilege. In all the circumstances it would be unreasonable to hope for a system that was in fact fair, economically neutral and entailed minimum compliance and collection costs. At best the tax summit will be an unrepresentative group, without any special expertise in taxation, giving its imprimatur to tax policies that are neither particularly efficient nor particularly fair. It would be a pity if the summit enshrined these or if hard pressed and dissembling politicians later were to claim the authority of the summit to defend positions which had not been seriously considered by it. It would be a tragedy if, instead of lending standing to an improved tax package, the summit became the forum in which the assembled vested interests set up such a terrible cackling that they terrified cabinet and caucus into doing nothing.

The public is much more receptive to political leadership than some politicians give it credit for and a better way of governing than summits should be reforms introduced without fuss and without copping out of responsibility. The Fraser Government, in spite of the fears and predictions of the time, in the event had little difficulty convincing the electorate that petrolism should be priced at import parity. Tax reforms, which will have some obvious immediate winners, should be less unpopular than that sharp rise in petrol prices was.

The present tax arrangements are inequitable, and the inequity is exacerbated by employing less than the best available tax bases and rate structures. While there is much point in trying to improve the tax system itself, this task cannot be separated from consideration of the effect the system has upon taxpayers and governments.

There are two questions, not on the summit's official agenda, which really cannot be ignored in any tax debate. These are: how much tax and which arm of government should collect it. Inequity is caused not only by inequitable tax rules but also by avoidance and evasion and by inequitable government expenditure. While avoidance and evasion may be less with a technically superior system they derive from people's exasperation with seeing their taxes wasted. When Malcolm Fraser referred to certain tax avoiders as 'un-Australian' he was utterly wrong. Tax avoidance and evasion have become very Australian because Australians seeing what the Government does with their money no longer feel morally obliged to co-operate. I feel sure that if our country were facing an obvious strategic threat so that people's taxes were seen to be buying defence, tax avoidance and evasion would shrink to minor proportions.

If the summit were seriously to evaluate our tax system (which it won't) they would not be able to avoid the big questions of 'how much' and 'by which arm of government'. Because there is a trade off between administrative and compliance costs on the one hand and economic neutrality and fairness on the other, if less tax were to be needed a narrower tax base would become optimal. Obviously it is impossible to think seriously about income taxes without getting involved with the so called negative taxes. Pensions, family allowances, unemployment, sickness and single mum's benefits are obviously relevant to ability to pay and equity. Perhaps less obviously, so are expenditures on health, housing, education and entertainment; or most of the outlays of all three arms of government. Also, these ability to pay and equity issues arise when considering consumption taxes. The choice of best tax mechanisms changes with the level and direction of government outlays. Although a better way of financing current outlays can be designed no system will inure taxpayers to waste. So long as expenditure remains high and unpopular, to defend their revenues, governments will have to resort to draconian measures like the retrospective attack on 'bottom of the Harbour' schemes. An unsavoury aspect of the 'bottom of the Harbour' episode was that some of the most vehement opponents of the retrospective law had actually opposed sensible reductions to outlays; in particular they had opposed reductions to that big item, States Grants.

Until the States again raise most of their own revenue, facing their own angry taxpayers, there is no likelihood that they will change their expense-account ways. The States with highest proportionate public outlays to State GDP are not those which have had most Labor Governments but are those which have enjoyed most Federal Grants; that is Tasmania and WA. Returning the necessity to raise taxes to those who have the power to spend them should be part of any tax package.

Although few have done it recently, Governments can reduce expenditure. The British Columbia Government has and the Reagan Administration, in spite of Congress, has reduced non-defence costs. Low incomes are taxed to benefit relatively wealthy people and Brian Buckley writing for the Australian Institute for Public Policy prior to the last Australian budget identified savings of nearly \$4000 millions which, if adopted, would have resulted in a Commonwealth budget which was both more efficient and treated the poor better. Similarly Jeff Babb identified potential savings from the West Australian budget of over \$200 million. Both these papers are being updated and expanded now.

Whatever good or ill comes of the tax summit, the opportunity must be taken to debate expenditure. Peter Grace who was co-opted from the private sector by President Reagan to tell him where to cut the US budget will soon be touring Australia, brought here by the IPA. Mr. Grace handed his President a report with 2,478 items. If fully implemented the report would save the US taxpayer \$424 billion over three years. In Australian terms that would be about \$30 billion over the life of a Parliament.