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On The DRY SIDE TAX, EXPENDITURE AND THE SUMMIT John Hyde

Our tax system is, has been and will be vilified; but treasurers must be excused for thinking that taxpayers prefer any old pain to any new and lesser pain. If improvement rather than perfection is the aim, much current criticism of the 'preferred option' can be answered.

Mr. Keating's reforms are drawing fire on these five counts among many others:

- * The tax proposals do not address government waste and a wider tax base will support even more waste. While waste is not directly addressed, a flatter income tax will be less subject to bracket creep and a flat consumption tax is not at all subject to inflation induced escalation.
- * A 12.5% consumption tax is too much to be absorbed in one bite, will not be quarantined from wages, and will therefore transfer real spending power to wage-earners at the expense of profit and employment. A counter, and in my view equally plausible argument here, is that the 'money illusion' of bigger pay packets will permit a small fall in real wages increasing activity and employment.
- * No capital tax is appropriate at a time when new investment is barely enough to cover depreciation. As stated, this objection is right, but the indexed capital gains which it is proposed to tax are as much investment's reward as is income as defined in present tax law, and unlike current tax law income nothing will be expropriated until any so called gains are sufficient to maintain the real value of the asset.
- * The perks taxes will be punitive, inequitable and administratively impossible. Maybe it will, but if it were to be extended to tax public servants and politicians, in their hands but otherwise on the same bases as the withholding tax proposed for lesser mortals, I predict it will be most reasonably applied.
- * The 12.5% consumption tax will, by taxing inputs rather than consumption, seriously penalise agriculture and tourism. While this could be a problem, at some administrative cost, it could be reduced to the level of a minor anomaly to be accepted in place of some current major anomalies

If the existing tax system ends up as the only alternative to Keating's option C, it should be borne well in mind that it is no great shakes. It has three great faults which a surprising number of people seem quite suddenly to have forgotten.

- * Its marginal rates are so high as to be a serious disincentive to work and a serious incentive to cheat. Tax cheating is not merely an nouveau riche hobby but is endemic.
- * It causes wasteful use of resources by people channelling their business through its various loopholes.
- * It is inequitable as between those who are more prepared to avoid its provisions and those who are less. There are substantial rewards for those who discover new loopholes. (Old loopholes and exemptions in general use cause fewer inequities than most people believe because the existence of loopholes is built into wages and prices. For instance, salaried academics who have been given to public displays of self-pity based on the assertion that they have little access to tax avoidance measures are not disadvantaged. I think the perks tax commissar may not see them the way they see themselves, but be that as it may, academics' tax disadvantages are compensated by academics' salaries. If they were not, chairs and lectureships would not be filled by people of adequate competence.)

There are of course alternatives to either the status quo or option C. For instance there is the interesting proposal developed by Professor Mike Porter's team at the Center of Policy Studies. They call it 'Option D'.

Constitutionally the Opposition may not introduce a new tax measure, but can veto one. Therefore when the time comes the right question for the Opposition Senate majority to ask will not be whether the tax bills are ideal, which quite obviously they will not be, but whether they are better than what we have. I am disquieted by the widespread assumption that the legislation, or key elements of it, will be blocked. Labor's irresponsible record when in Opposition cannot in itself be an adequate excuse to behave similarly. In any case the Liberal Party might do better electorally if they let Labor take some of the tough decisions.

How money is spent is a more important question than how it is raised but how it is raised is not unimportant. The forthcoming talkfest should be used to shove the community's intolerance of wasteful expenditure down the ministry's collective neck, not because the tax system is not important but because asking the representatives of just a few selected vested interests to actually determine government policy is improper, and because the issue has reached such a degree of technicality that the Summit is most unlikely to elucidate taxation. It might as well do something useful.

There are few political lobbies more shallow, more objectionable and less helpful than those that complain about taxes and deficits but will not advocate specific expenditure cuts. Most of them actually advocate expenditure increases. Mr Hawke has been stung into complaining that there has been little in the way of detailed submissions from the business community as to where existing levels of expenditure should be cut. I sympathise with him. Anyone from the Fraser Government would attest to the fact that when it comes to expenditure cuts the record of business is an empty page. No politician is impressed by unspecific calls for restraint; they are made too easily.

It is not true however that the Prime Minister has received no advice at all from the public. He did receive a visit from a Mr Grace, President Reagan's advisor on budget restraint; brought to Australia by an independent (that is not tied to any vested interests) organisation, the Institute of Public Affairs (83 William St Melbourne; Tel. 03 61 2029). It took on business's task, responding to Mr Hawke's plea before it was made. The task is barely begun and business should send IPA not just apologies for past failures but whatever financial support IPA needs to carry it on.

In the USA the Grace Commission gave Reagan a workable, humane alternative to raising taxes. Without attacking the existence or substance of any Federal Programme, it was able to recommend 1635 separate savings of which Reagan has accepted 1148. Australia needs its equivalent.