Australian tax plan to hit working people

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The Howard government in Australia finally unveiled its long talked-of taxation plan on Thursday, with its main features being a consumption tax on nearly all the essentials of life, including food, combined with large personal tax cuts for high-income earners. To implement the plan, scheduled to begin in July 2000, the government needs to win a forthcoming general election and then push legislation through both houses of parliament.

The government is gambling on multi-billion dollar income tax cuts to boost its ratings in media polls in order to call an early election before the full impact of the Asian economic meltdown flows through the Australian economy. Nevertheless, Prime Minister Howard, aware of widespread opposition to a Goods and Services Tax (GST), has refused to publicly commit himself to an early poll.

The 10 percent GST would send the cost of living soaring for all those on low incomes--workers, students, the unemployed and pensioners--because nearly all their spending goes on the everyday items most affected by the tax, such as food, clothing, housing costs and basic services. By contrast, the prices of many more expensive items would drop because of the abolition of wholesale taxes.

Average working families and those on welfare benefits would be worse off by anything between $7 and $20 a week, whereas those on high incomes would gain. New homebuyers would be $16,000 a year worse off, and the higher costs of house building would quickly lead to higher rents.

The GST would raise an estimated $30 billion a year, yet the government claims that the official cost of living index would rise by just 1.9 percent. On this basis, the government would only compensate pensioners and welfare recipients by 4 percent. Even based on the statistics supplied by the government, the Australian Council of Social Services estimates that 2.5 million families would suffer serious cuts to their weekly spending capacity.

At the same time, rich families would have their income tax slashed by around $90 a week, while the reduction for working class families would be only a quarter of that--$20 or less--and the unemployed would gain less than $3. Those able to afford private health insurance would, in addition, obtain a 30 percent cut in the price of premiums via a tax rebate, again heavily weighted in favour of wealthy families. This rebate would increase the pressure for further cuts to Medicare, the public subsidy for medical treatment, relied upon by 70 percent of the population.

Moreover, the changes would provide a bonanza for big business. It would no longer pay taxes in advance and would grab the lion's share of the benefit of a $4 billion annual reduction in the diesel fuel excise from 43 percent to 18 percent. Mining, transport, and agricultural companies would particularly profit. The government has also promised to decrease the corporate tax rate from 36 to 30 percent in the years ahead. The previous Labor government slashed the rate from 48 percent.

To finance the income tax cuts for the wealthy and business concessions, the Liberal-National Party Coalition plans to take $5 billion to $7 billion per year from the budget surpluses created by the slashing of spending on health, public housing, child care, aged care, student allowances and welfare benefits over the past decade by both Labor and Coalition governments.

The social interests served by the tax package emerge from an examination of its basic structure. On the one hand, the program marks a further shift from taxes on incomes and profits to a regressive tax on consumption, designed to shift the burden onto the working class, while on the other the tax concessions aimed at 'selling' the package are financed out of spending cuts which have hit low-income earners the hardest.

The inequality would increase further in coming years as the rate of the GST inevitably rises from 10 percent. The government claims that each of the country's six States would have to agree to any increase in the rate but that provision can be overridden easily by federal legislation. Howard's assurances on this question are as reliable as his 1996 election pledge that his government would 'never, ever' introduce a GST.

The tax plan is part of the agenda that big business set down for the Howard government last year, together with breaking workers' conditions in the maritime, mining and construction industries, introducing more sweeping changes to industrial relations and selling off Telstra, the telecommunications company.

The entire package is based on the most dubious assumptions. In the first place, the government claims it will undertake a $2 billion crackdown on trusts and other tax evasion mechanisms by the wealthy, a promise made but not kept by successive governments, Labor and Liberal. Equally unlikely is the government's claim that it would raise more than $1 billion a year from the 'black economy'.

Moreover, its estimates of future multi-billion dollar budget surpluses are based on hopes of high rates of economic growth, despite the deteriorating situation in Asia. The government's predictions of 3.5 percent growth this financial year have already been thrown into doubt.

Even as the tax package was released, the financial markets were more concerned with the latest plunges in the Hong Kong stock exchange and the value of the Japanese yen against the US dollar. In response to these developments, the Australian dollar fell below US60 cents on Thursday night. The Asian slump and its spread throughout the world economy will see the next government deepen the shift outlined in the tax package, once the election is out of the way.

The business-owned media welcomed the regressive direction of the plan but condemned it for not going further. The *Financial Review*, for example, declared: 'No-one should kid themselves that Australia is moving to world's best tax practice for the globalised information-age economy and its footloose capital. There is no attack on the size of government or on the weight of the tax burden, particularly on capital.'

This is the third attempt in just over a decade to impose the shift to consumption taxation. The first, advanced under the Hawke Labor government by the then Treasurer, Paul Keating in 1985, was withdrawn for fear of widespread outrage. The next attempt, initiated by the Liberals in 1991-93, saw them defeated in the 1993 election, allowing Labor led by Keating to cling to office for three more years.

This time, the government has launched a $10 million advertising campaign to deceptively present the plan as a tax cut for all. Yet it is a measure of the deep crisis of the government that it is now banking on the repackaged GST scheme to boost its electoral chances.

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