

Australian Democrats rescue Howard government

Consumption tax will hurt workers, students, pensioners and the poor

Mike Head
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By agreeing late last week to help introduce a wide-ranging Goods and Services Tax, the Australian Democrats have temporarily resurrected the Howard government and paved the way for a fundamental shift in taxation.

Under a last-ditch deal sealed between Prime Minister John Howard and Democrats' leader Senator Meg Lees last Friday night, the Senate will endorse the government's consumption tax plan before June 30 with a few modifications.

Howard was so desperate for an agreement that he spent 13 tense and exhausting hours spread over nine days personally negotiating with Lees, a woman he had never actually met before. For nine days the GST talks totally dominated official political life, and the mass media.

Howard staked the fate of his government and his personal political career entirely on successfully implementing the new tax. On May 14, his project came to the brink of collapse when, despite months of political courting, right-wing independent Senator Brian Harradine refused to embrace it.

As he posed for news cameras shaking hands with Lees, Howard was visibly ecstatic. He described the breakthrough as "truly a historic moment in the economic modernisation of Australia" and expressed his "undisguised pleasure". It was, he enthused, "sweet political enjoyment of the most exotic kind" and an alteration to the "political paradigm". Lees was only slightly less effusive. She appealed to disgruntled party members to look at the benefits of the whole package, insisting it was a "green and socially responsible GST".

Why the euphoria? First, it is necessary to examine the package itself. Its basic thrust is to transfer the burden of taxation from income and company tax to consumption tax, replacing a system that was, at least theoretically, socially progressive in its impact, with one that is inherently regressive—that is, designed to make those on low incomes pay the most.

Big business has long demanded this switch. Its spokesmen are well aware that whatever minor limitations are placed on the GST's scope to begin with, once the new structure is in place it will be extended. "Tax reform at last!" proclaimed the *Australian Financial Review*. "Most important for the Prime

Minister," the newspaper continued, "it is the political result he definitely needed in order to maintain his authority as a leader and his credibility as an economic reformer".

The Australian Democrats claimed to reduce the regressive impact of the GST by exempting "fresh food" from the 10 percent impost. Apart from the many nonsensical difficulties of differentiating "fresh" food from other food, studies have shown that those on low incomes spend a far higher proportion of their budgets on processed food, prepared meals, snacks, confectionery, soft drinks and take-away food, than the wealthy. Families whose adult and teenage members are working long hours, tend to spend the greatest amounts on such food.

Leaving aside food and several new exemptions for everyday chemist items, alternative medicine remedies and adult education and training, the underlying regressive features of the tax remain, particularly its effects on clothing, housing, household goods and routine services. Lees enraged students by suggesting that they would benefit from a new exemption for donated second-hand clothing.

Such is the Democrats' vision (shared by the government) for Australia: a country where students and the rest of the poor, including pensioners, welfare recipients and low-wage families have to make do with second-hand goods from charity stores.

The Democrats also claimed to make the GST package fairer by reducing the income tax concessions proposed for high-income earners. Yet the revised income tax scales show that the wealthiest taxpayers will still benefit 12 times more than those at the bottom end of the scale. A dual income family earning \$150,000 a year will gain \$123.44 a week in tax cuts. A family on \$20,000 (one-third of Australian households earn less) will gain just \$10.05 a week. A family on an average income of \$40,000-\$50,000 will benefit by approximately \$20 a week.

Those earning no income, or less than the tax threshold of \$5,000 a year—including full-time students, welfare recipients and retired people—will receive no tax cuts to compensate for the GST. Under the revised package, pensions and benefits will rise by 4 percent initially but this slight increase will be eaten away within a few years by inflation because pensions will

remain tied to 25 percent of average male weekly earnings.

By contrast, corporate Australia will benefit enormously. In addition to the hefty income tax handouts to top executives and shareholders, an array of business taxes at the state government level will be eliminated. Moreover, the vast bulk of the \$3 billion a year from the 20 cent-a-litre diesel fuel rebate will go into the pockets of the major transport firms, mining companies and agribusiness conglomerates. Businesses will also be able to claim \$1 billion a year in fuel tax credits.

Finally, the GST deal is part of a wider understanding between the Democrats and the government to slash the company tax rate from 36 percent to 30 percent. The Democrats have embraced this oft-stated goal of Treasurer Peter Costello in return for an investigation of the possibility of instituting a 20 percent minimum corporate tax rate. This latter suggestion only highlights the fact that many businesses, particularly large companies, use a variety of tax evasion mechanisms to pay little or no tax.

Lees and the Democrats' leadership have come under fire from within their party and its voting constituency—including small business people, environmentalists, churches, students and educationalists. Environmental groups say the diesel rebate will subsidise the usage of heavily polluting fuels to the tune of \$8 billion over three years, offset only by \$3 billion in anti-pollution programs. They have calculated that the tax package breaches the greenhouse gas emission targets set at the recent Kyoto summit. Emissions from transport will jump by 5 percent annually. By 2015 they will rise by 60 percent, or seven times the growth limits set at Kyoto.

Small business people have objected to the fact that they will bear the brunt of the estimated \$2 billion a year in collection and compliance costs for the GST. Book publishers, sellers and readers have denounced the Democrats for abandoning a pledge to exclude books and other publications from the tax.

Initially, the Democrats' deputy leader, Senator Natasha Stott-Despoja, was reported to be considering crossing the floor in the Senate. She has since backed away from what would have been merely a token protest. Others, including two ousted ex-leaders of the Democrats, John Coulter and Janet Powell, spoke of organising petitions in the party for a change of leadership. No one could be found, however, to mount a challenge to Lees.

Much is at stake in the new package for both the Democrats and the ruling Liberal-National Party coalition. If Howard fails to get the GST Bill implemented, the government will be thrown into crisis. Howard would almost certainly be replaced by Costello, who is the favourite of the financial markets. In addition, the government still faces severe problems in securing the passage of other key legislation, including the completion of the Telstra privatisation, abolition of funding for student unions and further anti-strike laws.

As for the Democrats, they have jettisoned their claims to be a socially progressive alternative to the major parties. From contesting elections under the slogan of “keeping the bastards

honest” they have become a governing party in effective coalition with the Howard administration. In the last October's federal election, the Democrats gained two additional Senate seats because of the widespread disaffection with the ruling Coalition and the opposition Labor Party. When a new Senate assembles on June 30, the Democrats will hold the “balance of power” in the upper house for the next eight years, making the government reliant on their votes.

In the words of the *Australian Financial Review*, Lees has moved the Democrats into “big-time politics”. This transformation, however, threatens to permanently tarnish the Democrats in the eyes of their previous supporters. Students in several cities marched on Democrats' offices on Monday, accusing them of “betrayal”. In Sydney, 29 demonstrators were arrested after occupying an office for two hours.

Most ordinary people oppose the GST. Even media polls consistently show majority rejection, but this sentiment has no voice in the political establishment. The Labor Party leaders have ridiculed the Democrats' “fresh food” exemptions, pointing to obvious inconsistencies involving, among other things, cooked chickens, tossed salads and baked cakes. These objections have introduced an element of high farce into the parliamentary debate, yet this only serves as a diversion from the underlying political shift that has taken place.

Labor Party leader Kim Beazley has already stated that a Labor government would not scrap the GST, only perhaps modify it. In any case, the historical record shows that he and other Labor leaders helped initiate the first attempt to introduce a GST, the ultimately aborted plan brought forward by the Hawke-Keating government in 1986.



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