Consumption tax legislation passed in Australia

A prescription for further social inequality

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Amid much ado, the Australian parliament passed the Howard government's Goods and Services Tax on June 29. Government MPs cheered and hugged and kissed each other. Government leaders and media editorial writers alike referred to the introduction of the new tax system as an “historic” achievement for Prime Minister John Howard.

Two days later, Howard made a rare television address—only his second in three and a half years—in an effort to convince ordinary people to accept the highly unpopular tax. Despite the scenes in Canberra, the opinion polls show that only one-third of voters support the 10 percent consumption tax, even after the exemptions for “fresh” food worked out with the Australian Democrats.

The GST is part of a fundamental shift in taxation. It is an inherently regressive tax in its own right—one that makes those on low incomes bear the heaviest burden. They face higher prices for nearly all everyday purchases, including fast food and clothing, items on which they spend a far higher proportion of their budgets than the wealthy. Yet the prices of luxury goods that are currently highly taxed—everything from yachts to fast cars—will fall. As for the symbolic concessions agreed with the Democrats on food, they can be readily dispensed with—and the 10 percent rate increased—once the new tax is implemented next year.

The government and the Australian Democrats sought to justify the switch to taxing consumption by arguing that the poorer 80 percent of taxpayers would benefit from income tax cuts and that those dependent on aged pensions and social security benefits would be compensated for the GST's inflationary impact.

However an examination of the government's own figures reveals that the rich gain most from the personal tax cuts. For all the claims of the Democrats' leaders to have negotiated a “fairer” outcome, the final package slashes the tax of two-income families earning more than $150,000 a year by more than $120 a week. A single person on $75,000 gains by $86 a week. By contrast, someone on $20,000—an average low-income wage—receives $10. Pensioners and social security beneficiaries get a miserable one-off 4 percent rise. Students and others without incomes will get nothing.

The end result is that on July 1, 2000, the previous tax system which, in theory at least, taxed the wealthiest the most, will be replaced by one based on the opposite principle—that the poor should pay the greatest amount.

Those who will benefit most handsomely constitute a distinct layer in an increasingly polarised society. They are the top 10 percent—the developing strata of millionaires riding on the share market and the activities of finance capital. Their riches are derived from company floats, privatisations and corporate downsizings—the very processes that are destroying the jobs, livelihoods and social services of millions of working people.

The GST will exacerbate this social inequality. Not only will income tax be cut by $12 billion a year, but business taxes will also be reduced by $7 billion. Large mining companies and agribusinesses will also get the lion's share of the $3 billion diesel fuel rebate. These handouts have been largely financed by the Howard government's $6 billion gutting of social programs—from public health to legal aid—over the past three years.

In many ways, the passage of the GST legislation marks a political watershed. The corporate elite has long demanded consumption taxation. In fact, the Asprey Taxation Review Committee first made the proposal in 1975. Howard took up the demand in 1978 as Treasurer but his prime minister, Malcolm Fraser, backed away in the face of widespread opposition. The Hawke Labor government made the next attempt in 1985, with a 12.5 percent GST personally championed by the then Treasurer, Paul Keating, only to also drop it because of popular hostility.

Under John Hewson, the Liberals made a 15 percent GST the centrepiece of their 1991 *Fightback!* package, but were rebuffed at the 1993 federal election. Having recast himself as an opponent of the GST in order to scrape back into office, Keating promptly scrapped promised income tax cuts and lifted a wide range of indirect taxes to the tune of $2 billion a year, with almost as much impact on working people as a GST.

In 1995 Howard, re-installed as Liberal Party leader, pledged to "never, ever" introduce a GST, declaring that it was "off the agenda" of Australian politics. Brought to office a year later by an anti-Labor landslide, Howard maintained that position for just over 12 months. He was whipped back into line by big business through the "travel rorts" affair of 1997. This ministerial corruption scandal was one of the means by which the powers-that-be, including the media owners, made it clear that if Howard wished to remain in office he had to commit his government to the full corporate program of so-called taxation reform, labour market de-regulation and the dismantling of welfare. Within weeks, the government reinstated the GST on its agenda, began planning the 1998 waterfront confrontation and introduced work-for-the-dole.

But even after adopting the current GST package and claiming a mandate for it by narrowly surviving last October's election, the Howard government confronted considerable problems. The election saw the vote for the Liberals plunge to its lowest level in history. The Democrats and various “independents” obtained a record 20 percent of the vote. Only the continued hostility toward Labor allowed the government to cling on. Howard was reduced to courting a single right-wing independent Senator Brian Harradine in an effort to get the GST bill through the Senate.

Despite months of horse-trading, on May 14 Harradine declared that he could not vote for the GST because of its regressive character. The resulting impasse had the potential to develop into a major political crisis. The government was in danger of being stripped of its central policy, just seven months after the election. Moreover, it had renegotiated the entire federal-state financial structure on the assumption that the GST would pass. Howard faced the renewal of the media sniping against his leadership that erupted during the “travel rorts” scandal.

It was in this context that the Australian Democrats stepped forward to fill the breach. After nine days of round-the-clock negotiations they delivered Howard his tax, with only marginal alterations. Their services to the political establishment were quickly recognised. Every mass media outlet lauded them for their "responsible" decision. Parliamentary leader Meg Lees literally became an overnight media star—the subject of flattering prime time television interviews and full-length newspaper features.

The Democrats' collaboration with the government was so blatant that it produced an outcry in sections of the party's membership, triggering internal ructions. In recent years the Democrats have become something of a catchment area for middle class and small business voters disgruntled with the big business program of both Labor and Liberal. While remaining a thoroughly pro-capitalist formation, the Democrats have presented themselves as a socially-compassionate alternative to the two traditional ruling parties. For the last election they revived the slogan of their founder, disaffected Liberal ex-minister Don Chipp—"keep the bastards honest"—and picked up two additional Senate seats, giving them their highest ever total of nine.

In the wake of the Democrats' GST deal, the party's branches in the two most populous states—New South Wales and Victoria—passed resolutions requiring a national membership ballot on the agreement. Prominent members, including former party leader John Coulter, collected the requisite 100 signatures on a petition for a second ballot, this time to replace the leadership. Deputy leader Natasha Stott Despoja and another Senator, Andrew Bartlett, suggested that they might vote against all or parts of the bill.

The response of the Democrats' national executive and parliamentary leadership was swift, bureaucratic and blunt. The leadership petition was rejected with the claim that some of the signatures were irregular. A new list of signatures had to be gathered. Both ballots—one on the GST pact and one on the leadership—will be allowed to proceed, but only in several weeks' time, well after the GST legislation has passed into law. Senator Lees arrogantly stated that “they”—referring to the party's membership—could express an opinion, but it would not alter the commitment that the Democrats had given to the government.

In the final Senate division, Stott Despoja and Bartlett did vote against the bill, but knowing that their stance made no difference—the government only needed four of the Democrat votes in the upper house. More to the point, both refused to support the leadership petition. Instead, they dismissed any suggestion of challenging Lees and called for party unity.

The vote by the Democrats is part of a wider sharp shift to the right throughout the entire framework of official politics. The very conception of a progressive taxation system—one meant to more fairly distribute the proceeds of production—is being scrapped, together with all notions of social responsibility to those in need. All the old parties are appealing for the support of what Labor Party tacticians refer to as the "aspirational layers"—the 20 percent of the population earning more than $50,000 a year.

The GST is a key ingredient in the scrapping of the post-World War II welfare state based on national economic regulation. In the concluding parliamentary debate on the tax bills, Howard praised the Hawke-Keating Labor governments of 1983-96 for initiating this process. He described the GST as a fifth pillar of "economic reform". He credited former prime minister Bob Hawke with having erected the first two “pillars”—financial deregulation and tariff cuts. Howard paid tribute to Keating for having attempted to introduce a consumption tax in 1985.

Howard referred to his two remaining pillars as labour-market reform and fiscal consolidation. These are code words for the demolition of job security and working conditions, and sweeping spending cutbacks. Already, Workplace Relations Minister Peter Reith has introduced a “second wave” of labour market measures that go far beyond his 1996 legislation. Among other things, the new measures outlaw most industrial action, punish unions and employers for supporting universal union coverage, and extend the system of low-paid “youth wages”. Employment Minister Tony Abbott has launched a renewed campaign to cut unemployment benefits, declaring them to be a barrier to the filling of “entry-level” jobs paying less than $400 a week.

Having secured the GST, the media proprietors immediately demanded the next instalment of “taxation reform”—a vast reduction in the company tax rate. In its June 30 editorial, the Murdoch-owned *Australian* said: "The Prime Minister rightly claims credit for what may be one of the most significant Australian public policy moves in the latter half of the 20th century. Yet he should need no reminding that the GST is only one step—albeit a psychologically significant one—towards the goal of fundamental tax reform."

Financial markets increasingly demand an "internationally competitive tax regime". That means endlessly reducing business taxes to undercut the subsidies and handouts offered by other governments, while simultaneously degrading social services to force workers into low-wage jobs. Accordingly, Treasurer Peter Costello has reaffirmed his intention to reduce the corporate tax rate from 36 percent to 30 percent. In this arena too, the Labor Party paved the way, cutting the rate from 49 percent to 36 percent during its 13 years in office.