

Consumption tax conflicts wrack Australian government

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As the July 1 deadline for the introduction of the Goods and Services Tax looms in Australia, both the highly regressive nature of the new tax system and the fragility of the government responsible for it are becoming clearer. The new tax package contains the greatest transfer of revenue from ordinary people to the wealthy in Australian history. The 10 percent consumption tax will raise at least \$6 billion a year, while taxes on the highest incomes, business profits and capital gains will be slashed.

In the weeks and days leading up to July 1, the Howard government has been plunged into a seemingly endless series of conflicts and crises over the tax. Time and again, details have been leaked or otherwise emerged showing that the tax will have a far more serious impact on ordinary working people, particularly the poorest, than the government previously claimed.

Prime Minister Howard and Treasurer Peter Costello have repeatedly been forced to backtrack and offer last-minute sops to various groups—including MPs of their own Liberal Party, their rural-based National Party coalition partners and their political partners in the GST plan, the Australian Democrats—in order to secure the passage of the last pieces of legislation required to complete the tax package.

Over the past week it has been revealed that the government misled the public on the amount by which rents and petrol prices will rise. Leaked documents show that for four months at least the government kept secret a report by the Econtech economic modelling agency showing that private residential rents are expected to rise by 4.7 percent because of the GST—twice the government's public estimate of 2.3 percent.

For the two million rented households in Australia, that will mean paying an average of \$10 a week extra, based on the median rent of \$200 a week. Most rents are formally GST-free, but the rising cost of construction, maintenance and government charges, all hit by the GST, will produce a surge.

When the Econtech report was finally released, Howard and Costello appeared to be in disarray. Asked in parliament if the report's findings meant people would be worse off under the tax package, Howard offered only a one-line answer: "No." In a radio interview, after initially trying to deny the accuracy of the report's estimates, Costello declared that rent rises of up to \$10

a week were "affordable".

The rent revelations came on top of a furore over caravan park and boarding house rents, which are subject to the GST, even though they affect some of the poorest sections of the working class, including itinerant seasonal workers, pensioners, unemployed people and construction workers. Most of the more than 80,000 households affected will have to pay a so-called concessional GST tax of 5.5 percent on their rents.

This particularly punitive and unfair feature of the GST arose because the government struck a cosy deal with the caravan park owners' associations to levy the tax rather than require the operators to differentiate between long-term residents, who would be exempt from the GST, and tourists or temporary residents, who would not.

At one point the public outcry over the issue threatened to cause a split between the Liberals and the National Party. Thousands of caravan park dwellers live in rural electorates only narrowly won by National Party MPs at the last elections in 1998. Fearing the loss of parliamentary seats, the National Party federal conference on June 18-19 passed a resolution calling for the removal of the GST on caravan park rents.

National Party leader, Deputy Prime Minister John Anderson, unsuccessfully sought to defuse the issue by striking a deal with Howard for the government to "review" the impact of the GST on park residents after 12 months. When this failed to allay the public anger, the Australian Democrats sought to rescue the government by further reducing the GST rate applied to the rents.

Eventually, after closed-door negotiations with Howard and Costello, the Democrats settled for a slight increase in rent assistance payments for low-income earners, whether they live in parks, boarding houses or rented premises. Welfare groups denounced the increase as a pittance. Australian Council of Social Service president Michael Raper, for example, said only 60 percent of those who receive rent assistance would benefit and they would get only \$1.10 a week. The 47,170 students who depend on Austudy allowances will miss out on the relief altogether.

In the meantime, the government finally released its costings for changes in petrol prices. Several months ago, Howard gave a personal pledge that pump prices would not rise, but the

released figures show that the government is counting on the oil companies to pass on supposed cost savings of 1.5 cents a litre. Predictably enough, the oil giants disputed the figures and warned that prices would rise. This left Howard floundering.

Other issues erupted as well. Struggling professional artists—who earn an average income of less than \$20,000 a year—held protests over the impact of the new tax system, under which they must register as businesses and cannot deduct their art practice losses from any other income they earn. Childcare groups warned that charges would rise by \$10 a week. Superannuation funds unveiled fee increases of up to 16 percent, eating into the savings of retirees. International philanthropic foundations declared they would stop awarding grants in Australia because they will be subject to the GST.

Despite an unprecedented \$431 million advertising PR campaign to promote the merits of the new tax regime, the government's opinion poll ratings have fallen precipitously. According to Murdoch's Newspoll, the government's support has fallen to 39 percent—its lowest level since the last election—and Howard's approval rating has slumped from 41 percent to 38 percent since late May.

Media monitoring companies reported that the advertising campaign backfired, with callers angered by both its cost and content. Such was the hostile response that rock singer Joe Cocker, who was paid \$270,000 for the theme song—his rendition of “Unchain My Heart”—has sought to have his name removed from the credits.

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Of great concern to the government is the increasingly pessimistic and antagonistic stance of sections of business. Leading corporate surveys have shown that in the June quarter, business confidence suffered its biggest slump since the 1987 sharemarket crash. Fifty-nine percent of firms expected business conditions to deteriorate. Spokesmen for major banks said GST concerns were a major factor. Consumer spending is also falling and only 19 percent of retailers predicted a positive commercial environment over the next year.

Small business people in particular, regarded as Howard's core electoral constituency, are facing acute problems with the introduction of the tax. In order to collect it, they must consult accountants and invest in expensive computer hardware and software.

One major accounting firm has warned that up to 100,000 small businesses face bankruptcy or cash-flow difficulties in the first months of the new system. Many small operators have been winding up or trying to sell out before July 1. Sales of businesses have risen by 25 to 50 percent, according to the Council of Small Business Organisations of Australia.

Big business, which demanded a radical shift from corporate and income taxation to a GST, has condemned the government for the increasing complexity and cost of the new regime, partly the result of the numerous exemptions, including fresh food,

allowed by the government, in order to stitch up a parliamentary deal with the Australian Democrats.

On June 21, the political tensions surrounding the GST erupted in parliament when Howard cut short the traditional question time for the first time since taking office in 1996. Amid the uproar, six MPs were suspended for unruly behaviour. Among them was Employment Minister, Tony Abbott. After attempting to physically confront a Labor Party MP, he became the first cabinet minister to be removed from the house since 1961.

Political commentators report that both government and opposition MPs now regard the Howard government as unelectable. “The Coalition is in serious trouble politically, and the question is whether the condition might become terminal,” Tony Walker commented in the *Australian Financial Review* on June 21. Michelle Grattan wrote in the *Sydney Morning Herald* on June 16: “A mood of business pessimism combined with a narky electorate is nightmare territory for a politician introducing an irritating new tax system, sitting on a narrow electoral margin and coming to be seen as increasingly flawed.”

In part, these comments reflect a renewed push by the media owners for Howard to be replaced by his deputy Costello, who is regarded as a more reliable exponent of the policies required by the financial markets. They also reflect concerns in ruling circles at the ever-growing popular disaffection with the entire political establishment.

The Labor leaders, who first sought to impose a GST in the 1980s, have sought to capitalise on the government's crisis by pledging to “roll back” some of the more odious features of the GST. Nevertheless, they have also ruled out abolishing the consumption tax, pitching their appeal to the “aspiring” layers in the top 20 percent of income tax brackets, who will gain personal tax cuts of more than \$60 a week.



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