Post-mortem on the Taxation Summit

There are no simple answers for the left on the problem of taxation, says Peter Groenewegen, who argues a controversial stance in his review of the Tax Summit. It’s possible, he suggests, that since Option C and its compensation package have been ditched, we may end up with an even less satisfactory situation.

The much heralded and much maligned tax summit is long over. After a week of talking and debate, was anything achieved? Most readers of the daily press and watchers of the electronic media can be excused for thinking that the summit ended in disaster for the government, in particular for the Prime Minister and Treasurer, and that the cause of tax reform has had a massive setback.

Likewise, those associated with welfare and community services groups may have celebrated the victory over Option C, with its broad-based consumption tax on goods and services without exempting the necessities of life but with considerable compensation for the disadvantaged and low income groups.

Many such judgements at this stage must be premature. In the sense that, as yet, no legislation has come out of the summit process of consultation and debate, little can be said about its actual outcome.

However, those claiming that the summit ended, and had to end, in failure, have failed to understand both its nature and the almost irresistible forces inherent in the current tax situation which drove the government to an attempt to tackle tax restructuring and tax reform through the risky expedient of summitry.

The origin of the tax summit cannot be seen, as some journalists had it, in a concession squeezed from the Prime Minister during a talk-back radio show on the hustings. Its origins are far more deep seated.

In the first place the need for a tax summit arises from the severe political constraints on tax reform built in to Australia’s political system: the short electoral cycle in the federal sphere, aggravated by the superimposition of state elections which the government needs to take into consideration; the built-in opposition in the Senate which, barring enormous landslides at double dissolutions, is now an institutionalised feature of the federal system and the high degree of opportunism on tax matters, (everything must be opposed) from politicians in opposition.

Secondly, the government was forced into basic tax reform because the easy options were no longer available. (The last free tax lunch was the revenue bonanza for the Fraser government from import parity pricing of domestically produced oil.)

This was disclosed to the government by experience in its first term of office: the political backlash to its reform initiatives in May 1983 with respect to lump sum superannuation and the assets test, and the 1984 restructuring of the income tax rate scale which failed to prevent those on average earnings entering the 46 percent bracket and created anomalies for social security recipients solved only on a temporary basis.

The fact that the process started in EPAC in December 1983 and that EPAC received well over 500 submissions on tax reform showed that, in the minds of the public, tax reform was long overdue.

What appears to have come out of the process? Contrary to press reports, a surprising degree of unanimity on a number of important issues. Two surprising results stand out to my mind.

First, the unanimous support for a crackdown on tax evasion, if need be with the support of a national identity card: a strategy which should not be destroyed by spurious civil liberties considerations. More importantly, consensus was reached on the need to broaden the indirect tax base, to which the ACTU, through its secretary, gave assent insofar as broadening the existing wholesale sales tax base and retail taxation of services is concerned.

Inflexible revenue is the reason for the recognition of this necessity. Even with implementation of the income base broadening of option A
through taxing fringe benefits, introducing capital gains tax, removing some tax concessions and cracking down on other areas of avoidance, the tax system will not be able to yield the required revenue in a fair manner without moving more efficiently — and more equitably — into the taxation of consumption spending.

There are few revenue bonanzas and no cargo cults either from tapping the multinationals (much of that is wishful thinking), or business in general (despite the relative decline of company tax which has been much misunderstood) or the elimination of the threshold which sections of the right and left see as an unexploited tax quary.

Effective taxation of the first raises complex issues of international taxation, made even more complex by removal of the foreign exchange restrictions, part of the floating of the dollar in 1983.

In addition, real aspects of disincentives to invest are inherent in raising effective rates of business taxation in general.

It may be noted that, in the matter of dealing with tax havens, the White Paper itself expressed a substantial degree of impotence.

Those who seek a major role for the public sector in this country or who have the more limited desire to see it hold its own, need to grasp that this requires a rising tax share of GDP because of the small productivity growth potential in supplying community services.

In that sense, the welfare groups' victory over the broad-based consumption tax may have been a pyrrhic one: a fair proposal in a comprehensive package was rejected because of opposition to one of its components without full realisation of the implications of that choice.

This "fairness" can only be appreciated when the White Paper's compensation package is compared with other compensation offers accompanying structural change in the past, and when the revenue consequences of not having broad-based consumption taxation are fully realised.

The messy alternative of expanding the wholesale sales tax base — and more particularly the direct taxation of services — was also not being appreciated by at least some trade union leaders, particularly the fact that the most efficient way of introducing such services taxation is by a payroll tax on the labour employed in providing them.

The bottom line of this is that vigilance should be exercised to get reform into the right direction. Income base broadening of Options should go hand-in-hand with the extension of indirect taxes. Wealth taxes in the inheritance area particularly should remain on the agenda for reform.

The post-budget tax package will indicate whether tax reform implementation will take some root in this country as a consequence of the summit.

Peter Groenewegen is a professor in the Department of Economics at the University of Sydney. He attended the Tax Summit in Canberra recently.

The success of working class and community groups in opposing the government's tax reform proposals has implications for the future, says Warwick Neilly, which extend far beyond achieving an equitable tax package.

The defeat of the Hawke government's reform proposals for the Australian taxation system was a victory for the majority of people in Australia. It was also an historic victory in that, through what will no doubt prove to have been an aberration in government policy formulation, the full weight of working class and community groups' opinion was effective in rolling back an essentially conservative proposition structured around a new, universal consumption tax.

The character and potential effects of the government's preferred option for reform needs no extensive analysis at this point. It is probably sufficient to state that the final assessment by a wide range of organisations was that it would have resulted in the poor and low to middle income earners paying more tax, not less, in the short and the long term. It would have disrupted economically and socially important industries such as housing, driven down consumption in many other areas, and generally reversed the expansion in the Australian economy which has been experienced in the last two years.

So, even within the context of orthodox social democratic economic thinking and policy formulation, the preferred option of the government was beyond the pale.

The political logic of the right wing of the government was also extraordinary. The ALP's traditional working class base was brought to the brink of complete dissatisfaction, and the blame for this must be directed, not at other factions, but at the right wing.

It is important, post-summit, to understand how the government's proposals were defeated, the implications of this for future progressive political activity and, at another level, to make an assessment of the package of reform which the government will finally introduce.

The Final Package?

Politically, the government is obliged to come forward with a package which benefits the poor and low to middle income.

The success of working class and community groups in opposing the government's tax reform proposals has implications for the future, says Warwick Neilly, which extend far beyond achieving an equitable tax package.
It was to the organisations representing these people that the government had to finally concede. A package which does not do this will be rejected by these same organisations, and the gross inequities of the tax system will not be redressed.

For those with least capacity to pay, this means significant reductions in PAYE marginal tax rates for low to middle income earners, changes to the spouse rebate as proposed by Jennie George on behalf of the ACTU at the Summit, no extension of wholesale taxes to essential goods and services and further reforms in the social security area, beyond the 1985 Budget, to deal with "poverty traps".

For the wealthy and those with the capacity to pay, it means an extensive and revenue raising fringe benefits tax extending to the self-employed, maintenance of the higher income marginal PAYE tax rates and further action against tax avoidance and minimisation, including areas such as the cash economy in a wide range of industries.

We can safely predict, though, that the issues of making the rich pay in full, or even in part, will not be taken up by the government. It is almost trite to consider otherwise, given the tenor of the government's presentation of the 1985 Budget, and its projected revenue figures which clearly demonstrate that PAYE earners as a whole are being called on to pay more.

Already, less than two months after the Summit, the government is being dominated by the right wing forces which were routed on the tax issue, and we can justifiably fear that the final package will offer mere crumbs to those most in need of tax reform.

Who Defeated the Government's Main Proposal?

Principal emphasis has been given in the capitalist media to the trade union movement as being responsible for achieving the result at the Summit.

There are strong elements of of truth in this, but it is really only part of the story.

In fact, if the trade union response had not been consolidated by the stirrings of rank-and-file trade unionists and by the activities of progressive, as well as some conservative, union leaders, it may very well be that the ACTU leadership would have had neither the will nor the inclination to defeat the government's plan.

Unqualified credit should be given to sections of the ACTU leadership, such as secretary Kelty and president Dolan, who demonstrated a capacity to carry through the opposition of the vast majority of affiliates to the government's preferred option.

The ACTU negotiating team worked as a collective throughout the summit and in the build-up to it, and its work was pivotal to the ACTU's role in the debate over reforms.

Little has been said, though, about the capitalist press, about the role of community, women's and welfare organisations. Of all the groups participating in the summit, they assessed, very early in the piece, the deficiencies of the government's proposals.

Extensive co-ordination prior to the Summit among progressive activists in these organisations and trade unions ensured an effective exchange of views and agreement on alternative demands. The ALP left played an important role in this process, as did independent Marxists and socialists and members of the CPA and the Association for Communist Unity. The work carried out at this level ensured that the people's voice on tax reform was heard.

Keating provided the progressive movement with an opportunity to truly represent the vast majority in Australia, and it succeeded. Much of this was not readily discernible to the community at large, but it was decisive at the Summit.

The Centre-Left of the ALP also played a role in the defeat of the plan, as it also carried out consultative and co-ordination work in the community.

The wide range of community meetings, petitions and rallies which took place around Australia also demonstrated the community's clear opposition to the government's plan.

But the central co-ordination of progressive forces, through key organisations, was the principal reason that the opposition succeeded.

Implications for the Future

If the government does not come up with a package acceptable to working class and community organisations, taxation will continue to be a significant focus of struggle.

The range of forces which rolled back the consumption tax will have to assess its future work in this area, but following the success on taxation, the opportunity and the will exist to work around other issues as well.

Unemployment is one of those issues. Despite the glowing picture continually painted by Treasurer Keating, many of us are not confident that capitalism in Australia is able or willing to provide full employment.

In fact, the current hype over the economy and its growth is ideologically disorienting, disguising many undesirable trends - increased monopoly (Coles/Myer, Woolworths/Safeways), deregulation of finance and increasing interest rates, permanently high unemployment in specific regions, difficulties in the rural economy, increased imports over local manufacture, to name some important areas.

Attempts to discount wage rises, youth wage levels, private rental issues and public housing, disarmament and the ANZUS treaty - these are all important areas in which active co-ordination can ensure that the left continues to advance as the collective representative of the majority in Australia.

The environment exists for the growth of a new political movement to displace the rightwing domination of the labour movement and to effect genuine social and economic reforms in Australia.

Warwick Neilley is a research officer with the Building Workers' Industrial Union.