THE SENATE

A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS) BILL 1999

A NEW TAX SYSTEM (COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS—CONSEQUENTIAL PROVISIONS) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX IMPOSITION—GENERAL) BILL 1999
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A NEW TAX SYSTEM (LUXURY CAR TAX) BILL 1999

A NEW TAX SYSTEM (LUXURY CAR TAX IMPOSITION—GENERAL) BILL 1999

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A NEW TAX SYSTEM (INDIRECT TAX ADMINISTRATION) BILL 1999

A NEW TAX SYSTEM (WINE EQUALISATION TAX AND LUXURY CAR TAX TRANSITION) BILL 1999

Second Reading
Senator MURRAY (WA) (9.36 am)—Madam President, as you know, I speak in continuation. Yesterday I was referring to remarks made by Senator Ferguson designed to damage the credibility and the status of the reports produced by the various committees, in particular the main select committee. That is a process of Senate abuse, if you like, which has been carried on by a number of government senators.

Every committee in which I have ever been involved has had some difficulties in arriving at the final report because that is the nature of the report process. However, Senator Ferguson well knows that the private meeting of the Senate committee to consider the draft report did agree on what basis the report should be balanced up and how it should be treated. It was left to the chair and deputy chair—comprising six out of the seven members of the committee—to finally resolve the matter, with the specific injunction that government senators should balance up the report in areas where they felt there was insufficient evidence to support their viewpoint.

At that meeting, we also made it clear—and I particularly made it clear—that government senators, Labor senators and the Democrat senator would rely on their supplementary reports to establish their position. The main report would summarise as much of the evidence as possible.

Whether it was legitimate or not I do not know, but it was Senator Ferguson who chose—knowing that the date for the report was 19 April—not to be in Canberra. He chose not to be available for the last few days on which the Senate committee report was to be resolved. As deputy chair, I would not have made that choice, but he did make that choice. It is entirely wrong for the deputy chair of that committee to condemn the process for political purposes when he himself had the ability to supervise the process.

In proceeding to the substance of the bills before us, I want to focus on the government senators' report because it is the government's package—the government's New Zealand package, the government's New Zealand option—that is being put to us. The first conclusion of government senators was that:

The Inquiry process produced no information that was not already in the public domain or had not been considered by the Government when putting the tax reform plans together and debated during the election campaign.

I have to say that this is the most extraordinary, arrogant thing I have ever heard. I am startled that some of the Liberal senators who are of high quality could assume, and put their names to a statement, that they have perfect knowledge—that they could discount the views of 1,437 submissions, all the media and everybody else. This just seems amazing, particularly as I know, both from private conversation and on the record, that there were many facts about which they were interested and excited to hear—some of which supported their own views. Senator Conroy will recall the excitement with which the government treated new modelling that supported their views. They did not know that this modelling existed before, but they embraced it warmly when it helped them.

The government say that the process produced no information that was not already in the public domain, but I remind you that there is a very serious issue here concerning culpability and law. I draw an example which you may find strange, but which is apposite. In France, ministers and former ministers are being prosecuted because they knew that, if you dealt with blood in a manner that was inappropriate, you put at risk the lives and health of the people who received contaminated blood.

I draw this to your attention: remember that the government say they know everything. This is what they knew. At page x of the report of the Senate Environment, Communications, Information Technology and the Arts References Committee dated March 1999, in the executive summary—the Treasurer and everybody else knows this—the committee heard conservative estimates that:

... at least 65 more people would die each year in Australia as a result of the increase in urban air pollution and traffic accidents if the GST package goes ahead as proposed. These would be predominantly young children and the elderly.
If you are assuming perfect knowledge, you are telling the courts that, when you are prosecuted for somebody's death or ill-health, you knew something about it already. Ministers are being prosecuted in France because they knew that, if they dealt with blood inappropriately, they were putting lives at risk. And you know that you have been told by the Senate committee—by the AMA, a body of repute and credibility—that you will cause deaths if you pursue this matter. Therefore, you might find yourselves liable in law. I draw this to your attention when you say that you have perfect knowledge and nothing new has been observed.

The second conclusion of government senators reads:

The Inquiries by the Senate were poorly focused and mis-used by Labor and Democrat Senators who manipulated the Inquiries in an attempt to re-argue their political positions which were defeated in the last election. The Democrats ignored and misrepresented evidence which did not support their position with respect to food and GST.

This is very one-eyed. Of course the Democrat senator and the Labor Party pursued their particular viewpoints. You do not think that the coalition did? You think that they are angels who sat back objectively and independently—who sat on high and did not support their position in their argument? This again reflects an attitude to the process of committee work and Senate appraisal of legislation that is extraordinary given the known quality of the coalition senators involved—who do know better.

The third conclusion of government senators was this:

Many witnesses and submissions relied on false assertions and anecdotes . . .

Are you saying that all those who supported the government position did that or are you saying that it was only the ones who opposed it? Are you saying that all the submissions from the bishops and the churches relied on false assertions and anecdotes `many of which were irresponsibly perpetuated by the Labor senators rather than primary source material, such as the legislation and explanatory memoranda, which have been public since December 1998'? The conclusion continues:

Government Senators therefore do not place any credit on the claims and conclusions of the Labor Senators which are willingly based on misleading and inaccurate evidence.

Let me give you an example. Labor senators say that the first-year effect of inflation is between three and four per cent. The modellers, the economists and everybody else agreed, but because the Labor senators say it, is it going to be wrong?

We then move on to item 4, `The Government's tax package entirely meets the criteria by which tax reform should be assessed.' This is the idea that the package is perfect—`Peter's perfect package'. It is just extraordinary —when you originally intro duced 16 bills, the detail of which was not before the people at the last election, and to that you added a further 17 bills, and there are more to come—that you can claim that it entirely meets the criteria by which tax reform should be assessed.

The government says in item 4, `it is efficient—a single rate GST'. In fact, we know that indirect taxes number at least six and maybe seven. By the government's own laws, there are exempt, GST free, full GST, excise tax, wine equalisation tax and car taxes. There is no single rate; there are varied rates. And it says it `means minimum distortion to allocation of resources and prices and economic welfare increases by the greatest amount'. The jury is out on that. Essentially, the final conclusion of the very eminent people before us, including those by whom the government has put great credit, was that the economic effect will be moderately positive to negligible. I know that is a good outcome but that does not imply that it entirely meets the criteria by which tax reform should be assessed.

It continues, `it is simple—least compliance effort by business and ATO and no wasteful tax re-classification.' Eighty thousand businesses are affected by making health and education GST free and some other items that they sell will be fully taxed. Are you telling me that there are going to be no definitional arguments in that area? Are you seriously expecting me to believe that given the history of the definitional arguments over wholesale sales tax? It is the nature of sales tax law, whether or not it is GST law, that there will always be definitional arguments. Whether or not food is left out, I guarantee—I am prepared to put a year's salary on it—that there will be definitional cases going to the courts on your proposals, never mind the amendments.
Item 4 also says `it is equitable.' Well, this is an argument about fairness. In one of the last speeches yesterday, the point was made that compensation is necessary because it is unfair. It is a basic point. You do not need to compensate people unless there is unfairness apparent in the process. The government has used the word `compensation'. Therefore, the question is whether there is sufficient compensation. Listen to this conclusion from the government in item 5 which says:

There was no credible evidence to demonstrate, on reasonable assumptions, that any modelled household type would be worse-off as a result of the Government's tax reform package.

Were they there? Did they listen to the evidence? That is just the most extraordinary denial of the truths that were put before them. So let us turn to their supporters, to those people who believe in a GST and believe that food should be taxed. The former leader of the Liberal Party, the leader prior to John Howard's present team—not far back, quite recent—Dr John Hewson said, and I quote the Australian Financial Review of Friday, 16 April 1999:

... the Government should return to Fightback, as far as its compensation package is concerned. If there are lessons to be learnt—and there are—then the Government should learn them.

While economists will continue to debate the technical minutiae of the compensation package, the Government really should now cut the Goebbels chant, `There are no losers!', admit that there will be, and revamp the compensation package to ensure that there won't be. Further, in doing so, the Government should ensure that the benefits of compensation are preserved into the future.

That is not Labor senators speaking, it is not Democrat senators, it is not Senator Harradine; it is Dr John Hewson, the advocate of right-wing economic rationalism, saying that the evidence has proved that the government's compensation package is insufficient. Why deny it? Why go out into the world making fools of yourselves when the churches, charitable organisations, business organisations and your own supporters say that the compensation package is inadequate? You just end up looking like mugs. That is the problem with the coalition defence of their package. They are obliged by the rhetoric particularly of the Treasurer but also of the Prime Minister to hold the line regardless of the credibility of their argument.

That is why Dr Hewson uses the most damning condemnation that can be used in the 20th century, that you are behaving like Nazi propagandists. Dr Hewson says you are using the Goebbels chant. I might add that it extends to Goering hysteria because, for some reason, the Treasurer believes that, if the package is amended to make it fairer, inflation will go up, the surplus will collapse, the deficit will ride over us and the Mongol hordes will pour over the borders of Australia. We are doomed! We are going to die because we are going to give a few bob more to the poor and to the disadvantaged! It is absolutely extraordinary.

If the Senate inquiry has told anybody anything, it is that the poor and the disadvantaged will be undercompensated. They do not argue about the average, the mean; there are millions of people who will be undercompensated or will be losers. I can guarantee to you, from what I know of him, that Senator Harradine will not let you pass this package without attending to that problem because he is a moral man. So do not look to him to pass your package as it stands because he will not; neither will we. I carry on with the quote from Dr Hewson:

The principal losers will be the aged and other low-income earners, including those who pay little or no income tax or receive little or no welfare benefits—those whom Warren identifies as the working poor, and those who are asset-rich but income-poor.

What are the Democrats saying to you? What are the people you are trying to demean in your responses saying to you? They are saying to you, `If you don't pay income tax you don't get an income tax cut, and if you're not in the social security system you don't get a social security benefit, so you fall between the two of them.' This has been confirmed by Dr Hewson, whom the previous Prime Minister used to refer to as `Professor' in a derogatory fashion. But this chap is pretty clever, he is pretty well informed, he is well educated and he understands the evidence. The evidence is that your compensation package stinks, and it needs to be improved. He said:

But the revamp should be more than just a political exercise. One of the features of Fightback of which I am most proud is that in designing the compensation package we didn't just seek to compensate for the CPI effects of the tax package, but rather to actually skew the benefits to those who are particular disadvantaged in our society (those who, to some extent, have become victims of the "system"), by deliberately and generously overcompensating them.
John Hewson went to the people and said he would compensate those people—better than you would, so he says—but he also made a critical mistake which you have not. He took the whole package—all the details, warts and all—to the people, and the people rejected it because they did not like the composite package. What have you done? You have fudged and denied and gone about with mistruths and misrepresentations, and the result is that the Senate has the job of fixing this package.

Professor Neil Warren is an Associate Professor of Economics at the Australian Taxation Studies Program at the University of New South Wales. He wants food taxed, he wants the GST, and he is an author of the Fightback package—so he is on your side. In the *Financial Review* of 13 April 1999 he said:

First, the current compensation package needs to be significantly improved—

he is not talking about fiddling at the edges; he is talking about making real change—

with greater assistance to low-income households. Second, there must be a rethink on how best to compensate the low-income working poor and self-funded retirees.

And finally, the current compensation "lock-in" mechanism designed to ensure that the compensation package is maintained into the future will not work—even the Treasury now admits this is the case—and must be rethought.

Let us go back to page 347, item 5, of the select committee's main report. I will read again what the government said:

There was no credible evidence to demonstrate, on reasonable assumptions, that any modelled household type would be worse off as a result of the government's tax reform package.

You have lost that debate. You can go out and pillory the Senate as much as you like, you can tell lies about its obstructionism, you can tell lies about how the Senate process works and how the committees work, you can damn the senators, but you have lost that argument—the people do not believe you. We do not believe you, and we will not vote for your package for as long as your compensation package stands as it is. Item 6 of the report states:

The reasoned evidence—

says the government—


to the Inquiries overwhelmingly supported food remaining in the GST base on efficiency, simplicity and equity grounds. The Democrats refused to acknowledge that when informed witnesses addressed issues of equity and fairness they supported the use of direct compensation rather than narrowing the broad-based design of the GST.

While I cannot repeat the endless statements on the record when we dealt with those two competing issues, let me make it clear to the Senate and to the people of Australia that when it comes to issues of fairness versus complexity we are on the side of fairness. Sorry, folks—we are on the side of the poor and the disadvantaged.

This report talks about reasoned evidence. So the bishops are unreasonable—they do not have reasoned evidence; ACOSS do not have reasoned evidence; the charitable organisations do not have reasoned evidence; and those who do not want the essentials of life taxed do not have reasoned evidence. Oh no, says the government, the only people we are going to listen to are the disciples of mammon. We are not going to listen to the bishops and the churches—no—but we will go and bend our knees every Sunday. But does anyone think that the churchmen at the end of their services sidle up to the coalition senators and members of the House of Representatives and say, 'Good on you folks. You've got the right package. We're right behind you, but we're not going to tell the people that?' The bishops and the churches are telling you it stinks, and they have put reasoned evidence before us. Those on the other side are simply saying, 'Discount that, because simplicity matters more.'

Let us talk about the simplicity argument. The government says that, at the minimum, the cost of imposing a GST on business is $1.9 billion. Let me repeat that: $1.9 billion at the minimum. Others think it could reach as high as $2.7 billion—from $1.9 billion to $2.7 billion—to introduce the GST as the government proposes. The Australian Society of Certified Practising Accountants, ASCPA, says that the cost of making food GST free will be $100 million—five per cent. The point is: how do you say that this entire package is ruined when the total...
compliance cost is $100 million for making food GST free, but somehow the $1.9 billion doesn't matter at all? It just does not add up. So when the bishops and the churches and the charitable organisations say to us, `Do not tax food,' when the people of Australia say to us, `Do not tax food,' and those on the side of taxing food say, `The total compliance cost is $100 million,' I am afraid that I am on the side of the churches and the charitable organisations and the $100 million.

Senator Ian Campbell—You're on the side of hypocrisy!

Senator MURRAY—Mr Acting Deputy President, I draw your attention to the state of the house. *(Quorum formed)* To continue my remarks, the way in which the government has attacked the Democrats is extraordinary because the Democrats have accepted that there need to be changes to our tax system. We are suggesting amendments to make it fairer. We are suggesting amendments to avoid very real problems which have been exposed in the Senate's inquiry. We are suggesting that it is not Peter's perfect package and that the government should acknowledge the difficulties where they arise.

The Democrats have said that they are prepared to support a fair tax system. We say that this tax proposal as it stands is not fair. We say it will make the poor and the disadvantaged worse off. We say that its economic benefits are skewed. During the early days of the committee the economic effects of the GST were considered in detail. We did find that the indirect tax base is shrinking as a proportion of gross domestic product and that PAYE taxpayers are paying an unfair burden due to the exponential growth of tax sheltered income. Because of this, there is a strong case for relief for pay-as-you-earn taxpayers to offset the effects of bracket creep since 1993. But there is not a strong case for 80 per cent of the benefits to go to 20 per cent of the taxpayers at the upper end.

While the ANTS package is likely in the longer term to have a small but positive impact on the economy, the GST itself is unlikely to have a significant positive effect on employment. Any jobs improvement from the package is likely to come from the elimination of poverty traps and other related measures. Again and again on the public record I, on behalf of the Democrats, have congratulated the government for attacking the problem of poverty traps, but it needs to go a lot further. We found that zero rating sufficient foods in the economy for up to 90 per cent of all food will increase the number of jobs created in the short term by 8,000 to 12,000 but will not affect the long-term macro-economic benefits of the tax package.

We have drawn a number of lines in the sand. Those lines in the sand relate principally to making the compensation package fairer, to making most foods GST free and to delivering the economic benefits of the diesel excise proposals without attaching to it the dreadful environmental harm which will attach to it if it is extended into the cities.

Treasury has argued that all households had similar price effects, showing that pensioners, disability pensioners, self-employed and couples without children face much higher price effects than single employed people, for example. The NATSEM report firmly debunked this view. Unfortunately, the NATSEM report did not calculate price effects for households by income.

Senator Conroy—We did ask them to.

Senator MURRAY—We did ask them to. This is a major failing because the GST effect on the bottom quintile is half as much again as it is on the population as a whole. For those who are not technically minded, this means that essentially the modellers were unable to assess appropriately at what level and how the losers lock in in this situation. The Labor Party have listed two million losers. We have identified 1.1 million people who are not caught by either the income tax system or the social security system. We believe up to 4.9 million people are potential losers or will benefit marginally in this situation. All of that means that the government has to redo its numbers. You can retain the intent of your package if you attend to compensation, if you attend to broadening the number of goods made GST free, if you attend to the bad side effects from your diesel fuel policy.

Distinguished economist Professor Neville says that differences in consumption patterns vary depending on the circumstances of the person. Had the NATSEM modelling taken income specific spending into account, a much larger number of losers at the lowest level would have been identified. Unfortunately, what has happened is that the argument is now about how many and whether and all those sorts of things. I have deliberately put a great deal of emphasis on the words of Dr Hewson and of Professor Warren, because that line of argument is a nonsense—that is a diversion. It is accepted by business organisations, by charitable organisations, by the Democrats and by the community at large that the compensation package has to be improved. So stop talking about marginal changes; let us pull out a few billion to attend to that—and you have that money.
The food issue is something we will concentrate on during the committee debate, but really we have four options before us. The New Zealand option is the government’s option. The New Zealand option says we will make food taxed. I have been to New Zealand recently and I have spoken to the people who attend to the needs of those at the bottom end of society in New Zealand. The result of the New Zealand changes overall has been bad for the poor and the disadvantaged in their society. We do not need to follow the New Zealand model. The other models with regard to food have broadly been described as the Dutch model, which is the all out model; the British model, which is food out, except for restaurants and takeaways; and the Irish model, which more narrowly defines food primarily as fresh foods and commonly consumed groceries.

Frankly, as Senator Lees said yesterday, it is Peter Costello’s call. If he wants to go with the Australian Food and Grocery Council to all out, we are there. We will be quite happy with that. We will accept any of those definitions that we have put forward, or variations of those definitions. I want to remind the Senate that, on the food issue, Professor Cnossen said there are 105 countries in this world—and I think that is about half of all of the countries—that have a GST or VAT system. The vast majority of them do not tax food or they concessionally tax food. Even those countries which Professor Cnossen has advised as to how they should treat the GST system in their country have continued down that route.

Those are often countries that have authoritarian governments, which do not have the restraints that we have in our system. Yet on behalf of their people, over the 40 years in which GSTs have been applied, they have chosen to follow the principle of not taxing the essentials of life—in particular, food. Somehow this government says that we should follow the New Zealand option because that is much better on the grounds of simplicity. We should tax food because if we do not it is going to cost 40,000 retailers $100 million. What an extraordinary view. This government was quite happy for the superannuation industry to incur $100 million worth of costs in trying to manage a new tax, yet it says that $100 million dollars worth of food compliance costs are too much. It is ludicrous. (Time expired)