

## Australia Dossier by Robert Barwick

### 'Tax reform' will wreck the economy

*Prime Minister John Howard plans to appease corporate giants with tax cuts and a regressive consumption tax.*

On Aug. 13, the government of Prime Minister John Howard announced its long-awaited "tax reform" package, whose central feature is a 10% goods and services tax (GST). Ostensibly designed to "simplify" Australia's tax system, it is a sham which will shift the tax burden onto the poor and middle class, while offering huge tax breaks to big corporations and wealthy individuals. It will also help destroy what is left of Australia's physical economy.

In 1993, after Howard's Liberal party lost an "unlosable" federal election by campaigning for a 15% GST, Howard promised he would never introduce such a tax. However, after International Monetary Fund Managing Director Michel Camdessus demanded a GST during a visit to Australia in May 1998, Howard backflipped, and started pushing a GST.

Howard's plan, entitled "Not a New Tax, a New Tax System," will replace the current system of sales taxes on wholesale goods with the GST, which will be levied on almost all retail goods and services, including food and clothing. Only health care, education, child care, local government services, exports, and, crucially, "financial services," will be exempted. One effect will be that the prices of some goods that are now taxed at a higher rate, such as luxury items, will come down, while other prices, especially on untaxed items like food, will go up. The poor and middle-class families, who spend their income on essential items rather than luxury goods, will bear the brunt of the new taxes.

The government claims that the GST will result in an across-the-board

cost-of-living increase of just 2%, which is widely disbelieved. On Aug. 19, Michael Raper of the Australian Council of Social Services, the nation's welfare umbrella group, blasted the plan. "This package is unsustainable, it's unbalanced, it's unfair, and it's unacceptable," he said.

To compensate for the rise in cost of living, Howard is promising increased pension and welfare payments for low-income earners, and income tax breaks for fixed-, middle-, and high-income recipients worth \$13 billion. But, there are two problems with this: The payments and tax breaks are to be funded out of the budget surplus, a surplus achieved by two years of savage cuts in health, education, and welfare; and, they will almost certainly never happen, because the projected surplus will evaporate as the global financial collapse proceeds. Even if they were made, they are designed to largely benefit the wealthy.

A winner is big business, whom Howard is even letting design its own "reforms." On Aug. 12, Howard appointed powerbroker John Ralph to head a "review of business tax changes." Ralph is the head of the Business Coalition for Tax Reform, which funded a multimillion-dollar advertising campaign for the GST. More importantly, as the longtime head of the world's largest mining company, Rio Tinto, in which the Queen has huge holdings, and as chairman of the Queen's Trust, a charitable foundation financed by the Queen, he is the Australian business figure most closely associated with the City of London. He is also the chairman of Fosters Brewing Group. In addition

to the GST, Ralph wants a cut in the corporate tax rate from 36% to 30%. Ralph's own interests, in Rio Tinto and Fosters Brewing, stand to benefit greatly from the "reforms": The export-oriented Rio Tinto will largely escape the GST, while Foster's products will likely drop in price as the GST replaces the wholesale taxes.

The loser is Australia's physical economy. In order to meet Howard's stipulation that any business tax changes be "revenue neutral," it is expected that accelerated depreciation rates will be scrapped, a major disincentive to capital investment in plant and equipment, while the government has also slashed tax breaks for research and development. Like the disastrous Kemp-Roth tax "reform" in the United States in the 1980s, Howard's package will also encourage speculation by lowering the capital gains tax rate, while eliminating state taxes on financial transactions. On Aug. 15, Howard crowed, "You put all of those things together and you can't get a better location for financial activity anywhere in the Asia-Pacific region, and probably in the world."

In order to sell the package, the government has promised the GST will rein in tax avoiders, and shut down the cash economy. Not so, according to Ray Regan of the National Taxpayers and Accountants Association, who insists that the black cash economy will boom when a GST is introduced. "It happened in Italy, Israel, Turkey, and Thailand and it will happen here," he told the Aug. 15 *Herald Sun*. As for stopping tax avoidance, the claims are farcical: One of the most vocal supporters of a GST is Melbourne hotshot tax lawyer Mark Leibler, the chief figure in the "tax avoidance industry," which has ripped off \$50-60 billion from the Australian government in the past two decades, and which continues to flourish.