

GOODS AND SERVICES TAX, IMPACT ON STATE FINANCES AND ECONOMY

Motion

Resumed from 20 September on the following motion moved by Hon Ken Travers -

That the House notes the impact of the goods and services tax on the State's finances and economy.

HON LOUISE PRATT (East Metropolitan) [4.28 pm]: Some weeks ago when we last debated this motion I mentioned a large number of broken promises in the federal Government's commitments on the goods and services tax. I reeled through some nine broken promises and I shall now refer to broken promise No 10. This one is a corker. We were promised that the GST would be good for the Australian dollar and good for the economy. We were promised that the Australian dollar would be worth more. A document of Treasurer Peter Costello's on the new tax system and dated 23 August 1998 stated that lower costs for exporters would be reflected in a moderately stronger exchange rate over time. Members know the reality is that the Australian dollar has died. In fact, the last time the Australian dollar was worth more than US 60c was the day before the GST commenced. Since then it has dived to an all-time low against the US dollar, and that was before other international events occurred.

The decline in the Australian dollar pre-empted the fall in the international economy. The first year of the goods and services tax was the worst year for the Australian economy in a decade. The growth rate has more than halved in the year of the goods and services tax. These figures are an ominous sign to the 160 000 people who have lost full-time jobs since the goods and services tax was introduced. On top of this, business investment has fallen dramatically. In the June quarter, investment in new machinery fell nine per cent. Investment in machinery and equipment fell 8.1 per cent in the quarter. This is the largest decline in more than eight years, and represents a drop of 6.2 per cent for the year. Total business investment fell 1.5 per cent in the quarter, and has now fallen in three of the last four quarters. It is now down 13.2 per cent for the year. These are the worst figures in nearly a decade. Despite the fact that Australia has supposedly the lowest interest rates in a long time, the stark reality is that, statistically, mortgage and interest payments now eat up a greater proportion of household disposable income than ever before. Some of that is due to escalating credit card debt, which families revert to when they need to meet their bills. This is one of the reasons for keeping the pressure on to keep interest rates down at the moment, but heaven forbid that there is pressure to increase interest rates. What would that do to household budgets when already, despite low interest rates, more of the family income than ever before is going to pay interest?

Hon B.K. Donaldson: Interest rates are on the way down.

Hon LOUISE PRATT: The fact that interest rates are going down is beside the point, because the overall family debt level is much higher. Families have taken out much higher loans, and have much higher credit card debt. This makes keeping interest rates down increasingly important, because of their impact on the family budget. Statistically, we are spending more on servicing debt, because we have larger debts.

Hon B.K. Donaldson: Has Hon Louise Pratt seen the latest inflation figure, of 2.5 per cent?

Hon LOUISE PRATT: That is beside the point.

Several members interjected.

The PRESIDENT: Hon Bruce Donaldson is only encouraging further disturbing interjections.

Hon B.M. Scott: Does Hon Louise Pratt have a mortgage?

Hon LOUISE PRATT: No, I do not. I am probably the only person in this Chamber who does not own a home. Luckily for me, the \$14 000 first home owner rebate is not means tested against income.

Promise No 11 was that nothing would cost more than 10 per cent more than its previous price as a result of the goods and services tax. We were promised that nothing would go up by the full 10 per cent. Hon Peter Costello said on the radio that the price increase would never be 10 per cent. The reality is, however, that we have had price increases of more than 10 per cent. A Quadrant poll reported that 68 per cent of people believed that most goods and services have increased by more than 10 per cent. Even more interestingly, there is evidence that some manufacturers and producers have, in order to keep their price rises down, reduced the sizes and quantities of their product packages. For example, a package of skin cream may have contained 300 grams before the goods and services tax. It is sold at the same price, but the package now contains only 275 grams. That matter is currently being investigated for goods and services tax prices exploitation.

We were also promised that petrol prices would not increase as a result of the goods and services tax. John Howard said, in his address to the nation in August 1998, that the goods and services tax would not increase the price of petrol for the ordinary motorist. We have all seen how the goods and services tax has driven up petrol

prices. When it was introduced, the fuel excise was cut by 6.7c a litre, but the goods and services tax added 8.2c a litre, which means a 1.5c a litre net tax increase. The goods and services tax has also increased the country-city price differential. Country motorists are paying proportionately more goods and services tax because they pay a higher price for petrol. Unfortunately, the \$1 billion in the fuel sales grant scheme, which was supposed to ensure that the goods and services tax did not increase the price differential on petrol, was a complete disaster. In Western Australia the differential against Perth prices increased in every single one of the five towns surveyed by the Australian Automobile Association in July this year. I had the pleasure of participating in a transport forum a couple of weeks ago with a number of other members. The trucking industry is feeling particularly betrayed by the goods and services tax and the inadequacy of the promise that was made.

In my last two minutes I will whiz through the 12 broken promises.

Hon E.R.J. Dermer: Would Hon Louise Pratt like to seek an extension?

Hon LOUISE PRATT: I would love an extension, but I am sure there are many things that other people would like to say about the goods and services tax.

Promise No 1 was that everyone would be a winner with the goods and services tax. Unfortunately, we all know that higher income earners got the biggest tax cuts, and lower income earners have largely borne the brunt of the higher cost of living and the tax on ordinary everyday consumables. Promise No 2 was that no small business would go under as a result of the goods and services tax. The fact of the matter is that in the June quarter of 2001, bankruptcies increased by 78 per cent over the same period last year. The Insolvency and Trustee Service Australia reported that in August. Promise No 3 was that small business red tape would be slashed by the goods and services tax. The reality is that people are drowning in goods and services tax red tape. The explanatory material about the tax is thicker than three telephone books and weighs 7.1 kilograms. The Howard Government has introduced that despite the fact that Howard promised that a coalition Government would slash the burden of paperwork and regulation faced by small business. This is another serious broken promise. Promise No 4 was that the goods and services tax would create more jobs. The number of full-time jobs has fallen by 160 000 since last year. This is a tragedy for people now surviving on incomes lower than ever before. Promise No 5 was that the goods and services tax would shut down the black economy. Peter McDonald, from Taxpayers Australia, was quoted as saying that the black economy was going ballistic. Promise No 6 was that the goods and services tax would not be a tax on a tax. It is a tax on a tax; we all know that. Levies and stamp duties are taxed. Promise No 7 was that everyone aged over 60 would get a \$1 000 bonus; No 8 was that pensioners would get a four per cent goods and services tax compensation increase; No 9 was that health and education would be free of goods and services tax; No 10 was that the goods and services tax would be good for the economy; No 11 was that no prices would increase by more than 10 per cent; and No 12 was that petrol prices would not increase.

HON J.A. SCOTT (South Metropolitan) [4.38 pm]: The goods and services tax was much heralded when it first came in. It had a number of very interesting aspects. Prior to its introduction, there had been a very strong push by business to make changes to the taxation system, not so much to reduce the level of tax, but to reduce compliance costs. All the business journals were listing that as the number one issue that needed to be dealt with by government. When the goods and services tax was finally unleashed, it did exactly the opposite. I agree with the comment that it was not entirely the fault of the coalition Government that the tax became complicated. The Australian Democrats, which wants to be a progressive party, were very much in favour of this regressive tax. Anybody who watched the debates on the goods and services tax in the Senate could have been excused for thinking that Andrew Murray had the carriage of the legislation, because he was on his feet so often defending the GST. The current leader of the Democrats was one of a few members of the Democrats who opposed the GST. She coyly crossed the floor during the division. However, she did not take anyone across the floor with her to change the outcome of the vote. If she had been serious about it, she could have convinced some of her colleagues to cross the floor, rather than trying to maintain her virginity on the GST. Although Natasha Stott Despoja ranted and raved about being pure, she did little to prevent the introduction of the GST. Therefore, we ended up with a tax that was a dog's breakfast. I suppose it is pretty relevant, bearing in mind Andrew Murray's problems with dogs, that the tax ended up a dog's breakfast. Like Andrew's dog a little while ago, the Democrats got partly eaten by that tax in the last state election.

We ended up with a complicated tax, which drove small business people mad, and continues to do so today. For every person who thinks it is a good tax, there are probably 10 people who think it is an absolute disaster. As has been pointed out, an abnormally high number of businesses are going out of business. The problem is that this tax was not properly thought through for small businesses that deal with a huge range of products. When the tax was being debated in the federal Parliament, I remember talking to some people in a car wreckers business. That was an organised outfit, with shelves full of parts. Those people had absolutely no idea how they would value the parts they were selling for the purpose of taxation, because every single part was valued differently

according to how worn out a second-hand part it was. Therefore, it was difficult for people in such businesses to find a sensible way to resolve the proper level of taxation.

We were also told that the GST would get rid of the so-called black economy. I now talk to tradesmen who complain bitterly that they are being driven out of business by cowboys who have few qualifications and who are working for cash. Those tradesmen cannot get sufficient work because of the imposition of the GST. They must charge it so that they will not be fined. Many of them are starting to believe that they will go out of business unless they start working for cash as well.

The GST has not spread the load. One of the bad aspects of the GST is that it has further moved the tax burden from the large, wealthy corporations and people who have huge amounts of disposable income to the people who must spend every penny they have to live. That is the worst aspect of that tax. It taxes the poor to help the rich. It is a regressive tax in a whole range of ways. It attacks not only the people who are most vulnerable by taking money directly from their pockets, but also the government agencies that are carrying out services for those people. For instance, legal aid provides a service. Generally, the money is not paid by the client but is paid through the organisation itself. The problem is that even though these agencies end up with no taxable income, so to speak, they must complete all the silly paperwork. It is crazy that these agencies have been saddled with the compliance requirements when they do not earn any money. It is a huge waste of resources for those departments to pump money into the accountancy area so that they will be compliant, when they will get the money back at the end of the day anyway. That is a silly waste of resources and is hardly an efficient use of taxation.

For all the hoo-ha, the state budget indicates that Western Australia will be behind in the amount of money that the federal Government collects from the GST and pays back to the States. It will be behind the eight ball until the 2004-05 financial year. Therefore, during that period the State will receive less. When one looks at the overall amount of money that comes into all States' coffers, one sees that there has been a significant drop in untied grants to the States.

I have here a number of graphs that deal with that issue. I am holding up a graph for members to look at. From a high point in 1981-82, the graph line steadily declines. It does a little leap up again in 1989-90. From 1993, it falls away to practically nothing in the way of commonwealth grants to the States, and the line goes along the bottom of the graph. Therefore, the reduction in commonwealth grants to the States has been huge.

The Commonwealth also has its own purpose outlays. I am holding up another graph with three lines on it. The graph shows that the grants to all the States have barely maintained their momentum along the baseline, whereas the Commonwealth's own purpose outlays have leapt hugely, going from zero to 65 per cent. That is the real per capita cumulative percentage growth. It has increased to 65 per cent. However, compared with other States, the grants to Western Australia have sunk below the line.

A huge reduction has occurred in the grants to Western Australia, particularly during the Howard Government. It makes me wonder. Much has been written in the Press recently about the fact that Mr Howard cannot get along with Megawati Sukarnoputri. More importantly for this State, he did not get on with Richard Court! Under the Howard Government the funding for Western Australia has slipped way below the baseline that indicates the general situation for the other States. This State has fared particularly badly.

Hon B.K. Donaldson: Look at the figures between 1983 and 1996.

Several members interjected.

The PRESIDENT: Order! Members are breaking out again.

Hon J.A. SCOTT: Clearly, members opposite are stunned by this rejection by their federal counterparts.

Hon Derrick Tomlinson: I wrote about that 20 years ago, dopey.

Hon Ljiljanna Ravlich: That is unparliamentary.

Hon J.A. SCOTT: Hon Derrick Tomlinson is so upset by it that he feels as though John Howard has been in government for 20 years! He really does have a problem. Another graph shows the commonwealth grants to Western Australia as a percentage of the commonwealth tax collections. It has increased from 3.5 per cent in 1983-84 to less than two per cent in 2001-02.

Hon B.M. Scott: What was that figure for?

Hon J.A. SCOTT: I was referring to commonwealth grants to Western Australia.

At the same time the specific purpose payments to the States have risen considerably. That indicates that the Howard Government did not trust the Court Government and wanted to ensure that its grants were directed according to federal Government policy.

Hon Derrick Tomlinson: Now you are starting to say something that makes sense.

Hon J.A. SCOTT: Clearly, Western Australia has suffered considerably in that regard. I dare say that that funding included some of the money from the sale of Telstra that disappeared in a puff of smoke because it was misdirected and wasted rather than being spent usefully on programs to reduce salinity. As my colleague Hon Christine Sharp pointed out on another occasion, even though a very large percentage of the area affected by salinity is in Western Australia it receives a much smaller percentage of funding for salinity. The funding is distributed on a per capita basis rather than on the basis of the size of the problem.

Funding to the States has been eroded and it will take some time to regain previous funding levels because of the run-down facilities in this State and the federal Government's failure to properly address the salinity issue.

As I said earlier, one of the worst aspects of this tax is that it is regressive in that it does not differentiate -

Hon Ken Travers interjected.

Hon J.A. SCOTT: It is non-discriminatory in the sense that it does not enable the implementation of rewards for programs that benefit our society; for instance, the purchase of unhealthy food -

Hon Ken Travers: You and One Nation pay the same GST.

Hon J.A. SCOTT: I am interested in One Nation's federal election campaign. It appears to want to help the Howard Government return to office, yet it has claimed to be opposed to the goods and services tax. It appears that John Howard's only policy in this election campaign is that the GST will fix anything, and he is saying much about war. Perhaps One Nation likes the idea of war. A non-discriminatory tax does not allow for distinction between recycled paper, plantation paper or paper from old-growth forest.

Hon B.M. Scott: Do you know what chemicals are used to recycle paper?

Hon J.A. SCOTT: Yes, I do know. However, the chemicals used depend on the recycling process. The chemicals used in the paper recycling process are not necessarily as toxic as the chlorine products that must be used in the paper-making process from old-growth forests in the south west. Those timbers are high in resins, strongly coloured and require a great deal of very environmentally damaging chemicals, which not only damage water supplies and contaminate the soil but also deplete the ozone. Many other processes, such as the bacterial process of bleaching paper, have been developed in Osborne Park. However, the company involved in that process has not been given any assistance in the form of a tax break for developing a process that benefits the community.

The effect of a non-discriminatory taxation system is to promote industries, techniques and services that bring a cost to the community. Eventually, damage to the environment and to ourselves must be paid for. At the end of the day we pay if we become unhealthy from eating too many potato crisps and we must pay for all the social, environmental and economic damage we cause.

Hon Ray Halligan: Are you talking about positive discrimination?

Hon J.A. SCOTT: Yes. I dislike the GST a great deal because it does not allow positive discrimination. Small, light but expensive vehicles run on gas are taxed at the same rate as heavy, diesel-belching four-wheel drives that people think they need to do their shopping. They use twice as much fuel and cause twice as much pollution as a small car. A discriminatory tax could encourage people to move in the right direction. The present tax system is adding costs to the community. A tax system can be a very valuable tool to achieve beneficial outcomes. The GST does the opposite. A production process that causes poisons to flow into the atmosphere is taxed at the same rate as a process that contributes to cleaning the atmosphere. One process adds costs to the community and one reduces costs. The GST is a stupid tax.

Hon Ray Halligan: We could increase the tax on items that we do not want people to buy; for instance, on four-wheel drives.

Hon J.A. SCOTT: That is why progressive parties have talked about carbon taxes. The Government should examine the possibility of introducing what I call "community benefit" taxes that assist people whose businesses are beneficial to the community.

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