

GST must not be just a way to lift spending

WHEN Labor realised it had no prospect of surviving the 2013 election it made a series of announcements that will haunt the country for years to come. It said there would be an aggressive ramp-up in spending on schools, hospitals, and disability sometime after 2017. The date was carefully chosen. Budget estimates are published over four years. Labor knew it would never have to show the massive spending increase and, more importantly how it would be paid for, in any Budget it delivered.



These promises were popular - better schools, better hospitals, disability treatment for all, and what's more came at no discernable cost because the costs were outside the then Budget forecasts. It allowed Labor to look visionary. If the programs were ever delivered then Labor could claim credit for "Labor" reforms- the Gonski funding, the NDIS and so on. If they weren't, then that would just prove the heartless Liberals had cut them to pieces.

It was a surreal world. Labor couldn't deliver promises in the short term - like a Budget surplus in June 2013- so it started making promises for the long term. It couldn't deliver Budget promises when it was in office so it began making them for a time when it would be out of office.

It is common for retreating enemies to blow up supplies and infrastructure so as to deny them to enemies that are advancing against them. Labor took that approach - quite rational if you don't mind the damage it does. As the Coalition advanced on the September 2013 election Labor completely booby-trapped the forward estimates of the Budget.

Writing at the time, I recommended the Coalition not commit itself to this unaffordable spending. Labor was making promises it knew it would never have to keep. Giving bi-partisan support would leave the burden of doing the unattainable squarely on the shoulders of only one party - the incoming Government. Eventually the Coalition committed itself to four years of the Gonski funding and to the NDIS, but with some lee-way as to the time when full services will be introduced.

In this Budget, the new Government has now announced it will not be delivering Labor's supposed increases for Schools and Hospitals over the period from 2018 to 2025. It is being attacked for "savage" cuts of \$80 billion. Of course, these "cuts" are not now, not next year or the year after that. Some time in the next Parliament and mainly in the one after that, the Commonwealth Government will increase funding to the States at a lower rate than a dying Government reckoned it would have back in 2013. It is "cutting" something that was never budgeted and would never have occurred. Let us return to the land of reality.

Yet all of a sudden every parrot in every pet-shop is talking about the need to increase the GST. If these urgers think we need an increase in GST to fund a whole lot of promises that should never have been made and would never have been delivered then the bird-seed has gone to their heads!

My greatest fear about introducing GST was that it would become a soft way for big-spenders to finance their delusions. And that is why we put in place a mechanism to restrain any future increases- the requirement that all States and the Commonwealth agree to change it and thereby take responsibility and account to their voters in their subsequent elections.

Let me remind people why GST was introduced- to get rid of a whole heap of inefficient indirect taxes such as Wholesale Sales Tax and financial taxes and stamp duties. Let me remind people that it was introduced so we could lower personal income tax which would deliver higher incentives to work and save. The GST was introduced for an economic purpose which was to make the economy more productive and efficient.

If all we do is increase the rate-without any other reduction in income tax or indirect taxes then all we would do is make our economy less efficient and less productive.

Sure, you can argue about the base. I always wanted GST to cover food and that was the original design. But education and health were always excluded and for very good reasons that still apply today. Even if the Government brought food into the net, after compensation, there would have to be some other reform such as raising the thresholds where higher income tax rates kick-in. Just taxing more so the Government can spend more is not a good enough reason. Our country already has a spending problem.

If Labor votes for the Deficit levy-as now looks likely-we will have the highest top marginal tax rate (including the Medicare levy) since 1990. The Budget papers are forecasting no increase in thresholds to return "bracket creep" before 2019-2020. The take from income tax is going to grow around 8% per year. If, in the middle of this, the Government decided to increase the rate of GST or radically widen the base- without abolishing or reducing other taxes- it would not be a reform. It would be a big step backwards.

It might make the government richer but it would leave the economy much the poorer.