

WORKING TITLE: Premiers don't have to be patsies on tax reform

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The earth is flat, climate change is a conspiracy and the only way to collect more money for the states is to collect more money via the GST. How did the nonsensical belief that the GST is the one and only source of commonwealth revenue that can be transferred to the states come to so widely accepted?

Tony Abbott's 'captains pick' to apparently give a lazy \$660 million to the Western Australian government outside the usual Commonwealth Grants Commission process clearly shows that the commonwealth can give as much as it wants to whoever it wants.

The idea that the GST is 'The State's Tax' was created by John Howard to buy some allies for his tax reform agenda. It worked, but the GST now collects less tax as a share of national income. While John Howard still casts a long shadow over Australian politics, no parliament can bind the decisions of a future one.

The premiers used to play a central role in national policy. Indeed, the 'premiers' conference' was one a big event on the political landscape. The modern version is typically referred to it by its acronym of COAG, perhaps in order to manage expectations that a coagulant such as a group of politicians might ever drive action on any front.

Perhaps the premiers and chief ministers need to start meeting without the prime minister in the room to discuss their shared objectives? Surely even the Liberal premiers can agree that the Abbott government's plan to strip \$80 billion from future health and education budgets warrants a concerted campaign by the states? And surely even the state liberal leaders can agree that it makes sense for the Commonwealth to efficiently and equitably raise some more tax on behalf on the states.

Tasmanian Senator Jacquie Lambie has recently spoken out in support of a new tax on so-called "high frequency trading". Since 2012, the ASX has advertised its real-estate for high frequency traders, allowing traders to pay for their supercomputers to be located as close to the ASX as possible in order what it calls "access to market data and trade execution systems at unparalleled speeds", microseconds before other investors. These trades, which didn't exist in 2000, now account for a third of all trades on the lit market in Australia, and 44 per cent of all orders. In the USA, high frequency trading accounts for 70 per cent of the market. Every dollar

they make is a dollar that other investors lose and, to counter its rise, 11 European countries have committed to introduce such a tax. Research by The Australia Institute suggests a so-called Financial Transaction Tax (FTT), also known as a Tobin Tax or Robin Hood Tax, could conservatively raise between \$1 billion and \$1.4 billion per year.

This week south Australian premier Jay Wetherill spoke out about both the need for a broader debate about tax than predictable calls from big business to increase the GST. Wetherill argued that "There are other taxes that can be looked at before increasing the GST; they're things like removing the generous superannuation concessions for high-income earners and also looking at introducing things like the financial institutions duty."

Premier Wetherill also flagged support for a Buffett rule to prevent high income earners who spend hundreds of thousands in tax advice paying zero in income tax. The list of good tax reform is easily lengthened. What about reforming negative gearing, scrapping the diesel fuel rebate?

Once the state premiers break free from the mindset that the GST is their one and only source of federal tax revenue they could become a powerful force for genuine tax reform in Australia. Closing tax loopholes and scrapping inequitable tax concessions has proved too hard for successive federal governments so why not resuscitate a genuine premiers conference to build a shared agenda?

Tony Abbott has recently called for a 'leaders retreat' where he and the state premiers can thrash out some of the big issues that they currently face. Surely some of the premiers can see the opportunity to rise above squabbling over the distribution of the current GST pie and start baking plans to grow a bigger revenue pie for the states.

As a percentage of GDP, commonwealth tax revenues are at historic lows. Not only is the Abbott government struggling with far less revenue than Peter Costello ever did^[1], our tax to GDP ratio has not been this low since 1995.

The combination of low levels of tax collection, the infrastructure needs associated with record levels of population growth and a slowing economy are creating significant pressures on state and federal budgets. But while the obvious solution is to collect more revenue by closing loopholes and introducing taxes on things we want to discourage, the political right in Australia are fighting hard to convince the public, and the premiers, that the only way to respond to record low levels of revenue is with further cuts to spending.

Peter Costello, the treasurer whose tax cuts at the beginning of the mining boom drive up mortgage interest rates in the short term and the budget deficit in the short term, is adamant the chief spear carrier for cutting pensions rather than closing loopholes. But, like most of the HR Nichols society, he agrees that if we do have to collect more tax it should be from the GST. There are two reasons for this.

The most obvious reason the hard right prefer to collect tax from GST rather than by simplifying the tax system with fewer loopholes is that it is regressive. Indeed, the GST is one tax that foreign owners of our biggest companies are sure to never pay.

^[1] <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2013/Economic-Roundup-Issue-2/Economic-Roundup/Tax-to-GDP-ratio>

But the strategic reason to argue that the GST is the best tax to raise is that it is one of the most unpopular. Howard and Costello painted the premiers into a fiscal corner by linking their payments to the commonwealth to such an unpopular tax. Tax reforms such as the FTT, the Buffett rule and clamping down on loopholes exploitable only by the very rich are almost as popular as suggestions that we should spend more money on health, education and public transport.

There is an easy way to get out of a corner you have been painted into. You walk across the paint. Real political leadership, the kind that delivers good policy rather than good polling, requires the willingness to look at old problems in different ways and to build relationships and structures that suit your strategy.

There is nothing to stop the premiers taking control of the agenda at the upcoming leaders retreat, and there is nothing to stop them working together before that meeting to put new revenue ideas on the commonwealth's table, revenue ideas that could fund the pressing demands for services that all premiers have to deal with.

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