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Coalition's GST retreat a bad outcome for the states

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"I introduced the GST, so I know a good scare campaign when I see one. Keating was good in 1993. Kim Beazley ran a cracker in 1998. He was less effective with 'Rollback' in the 2001 election. The scare was running out of steam by the election of 2004 and that was almost 10 years ago. Mr Rudd has brought it back." -- Peter Costello, August 13, 2013 ([Herald Sun](#)).

"... if Kevin Rudd is elected, if Labor forms government federally, along with Labor governments in all of the states and territories they will be able to get unanimous agreement for an increase in the GST rate, there will be no checks and balances. Wall-to-wall Labor raises the possibility that the eight Labor states and territories will get an agreement from Kevin Rudd for an increase in the GST rate." -- Peter Costello, March 29, 2007 ([Treasury](#))

Thanks Peter. The 2007 scare campaign didn't work so well either, did it?

After a solid 18 months of confusion, earlier this year the Coalition established a sound, defensible policy and political position on the GST: it would be reviewed along with every other aspect of the tax system, but any changes emerging from that review would be taken to voters. "Any change in relation to the GST or major taxation change will go to the people," shadow Treasurer Joe Hockey said a week ago. It was Hockey who said back in May, after NSW Premier Barry O'Farrell had called for a review of the GST, that it was up to the states to "make the case" for a change ([ABC News](#)) -- which as we saw wasn't quite Costello's view of such things, but never mind.

The Coalition is right -- we *do* need to consider extending the GST. When even a boom state like WA faces deficits, it's clear state governments are grappling with similar revenue challenges to those facing the Commonwealth. Without more GST revenue, they'll be forced to turn to less efficient taxes, or slashes services or infrastructure spending. Whether the GST also needs to be increased, however, is less clear, given removing existing exemptions would add, even after compensation for low-income earners, \$4-5 billion a year. But either way, the Coalition's proposal to at least examine the issue is sensible.

Until Monday, the breastworks were holding. In his debate with Prime Minister Kevin Rudd, Tony Abbott sheltered behind the (completely fictional) line that the states had to unanimously agree to a GST rise for it to happen. But after just a few more salvos from Labor's apparently ineffectual scare campaign, the Coalition abandoned its position and engaged in a headlong retreat to the safety of promising no change ever.

And like most panicked retreats, it was more than a little disorderly. Coalition campaign spokesman Christopher Pyne was the first to flee on Monday night in his apparently permanent gig on the ABC chat show *Q&A*. He was joined by colleagues, and by Abbott himself, yesterday, although Liberal frontbencher Arthur Sinodinos hadn't heard the retreat signal and was still in place, maintaining the no-change commitment only applied to this

election. Sinodinos was lamenting the "gotcha" nature of the tax debate even as his colleagues were bailing out on him.

The result is a tactical victory for Labor but a bad outcome for Australia, which now won't have a serious debate about the GST, and which will leave state governments scratching for budget fixes. The states can't even count on the boost to company tax and mining tax revenues from rising iron ore and coal production that the Commonwealth will enjoy in coming years.

The Coalition's retreat also raises questions about its ability to hold even slightly difficult policy positions. The GST isn't the first. It's only a couple of weeks since Abbott and Pyne executed a remarkable backflip on education funding reforms, abandoning the position held since February 2012 that the Gonski recommendations were a "Conski" and that no change was needed, to declaring there was a "unity ticket" with Labor. And it's only three months since the party of small government and tax cuts backed Julia Gillard's Disability Care tax levy.

It provides further evidence that economist Saul Eslake might have been right on the money when he expressed the fear that an Abbott government would suffer from a Fraser-like aversion ([Crikey](#)) to fiscal and economic discipline. If you can't hold a line like "no changes to the GST unless voters support them in 2016", it doesn't bode well for other, more difficult fiscal and economic calls.