

Murray-Darling model

PROFESSOR JOHN QUIGGIN

Australian Research Council Senior Research Fellow

James Cook University

Quiggin, J. (1999), 'Quiggin on GST', *Conservation North Queensland* 15(2), 5.

The Federal government's tax reform package has been presented as 'not a new tax, a new tax system'. In fact, however, the entire package is designed with a single objective in mind - to minimise political resistance to the introduction of a broadly-based Goods and Services Tax (GST). Ever since the failed tax summit of 1985, the adoption of such a tax in place of the existing Wholesale

A crucial area of potential resistance to the GST was the National Party, whose supporters have become rightly wary of anything that smacks of 'economic rationalism'. The need to placate the bush gave the Nationals considerable leverage in the design of the tax package. Rather than use this leverage to any good purpose, however, Tim Fischer demanded cuts in the taxation of petrol and diesel fuel, policies whose primary effect will be to reduce the costs faced by urban motorists.

Apart from this disastrous trade-off, the environment was simply ignored in the design of the tax package. It is perhaps, not surprising that proposals for a comprehensive approach to environmental tax reform were disregarded. More seriously, there is no evidence that the government paid any attention at all to the environmental consequences of its tax policies.

The most promising single proposal for environmental tax reform was the suggestion that the job-destroying payroll tax should be abolished and replaced with a 'carbon tax', levied on emissions of carbon dioxide from the use of fossil fuels in industrial production and electricity generation. Such a policy would have reduced unemployment as well as making possible the fulfilment of Australia's Kyoto commitments to reduce growth in emissions of greenhouse gases.

Politically, such a policy could have been salable. The abolition of payroll tax was a high priority for business. Although the multinational firms that dominate resource

intensive industries would have fought the proposal, they owe the government so much for its shameless advocacy of their interests at Kyoto that they are no position to attack it with any vigour.

Unfortunately, the idea of a switch from payroll tax to carbon tax was doomed at the outset. The combination of the coal lobby within the government and the Treasury, which, on the basis of erroneous economic analysis, loves the payroll tax ensured that such ideas did not even come up for debate.

The tax package has been touted as a new tax system for the 21st century. In reality, it is a belated response to political imperatives of the 1980s. The environmental challenges of the new millennium remain to be addressed by a government with more vision and imagination than the present one.