COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

EMPLOYMENT, WORKPLACE RELATIONS, SMALL BUSINESS AND EDUCATION REFERENCES COMMITTEE

Reference: GST and a new tax system

THURSDAY, 25 MARCH 1999

CANBERRA

BY AUTHORITY OF THE SENATE

[PROOF COPY]

INTERNET

The Proof and Official Hansard transcripts of Senate committee hearings, some House of Representatives committee hearings and some joint committee hearings are available on the Internet. Some House of Representatives committees and some joint committees make available only Official Hansard transcripts.

The Internet address is: **http://www.aph.gov.au/hansard**

SENATE

EMPLOYMENT, WORKPLACE RELATIONS, SMALL BUSINESS AND EDUCATION REFERENCES COMMITTEE

Thursday, 25 March 1999

Members: Senator Collins *(Chair)*, Senators Carr, Crossin, Ferris, Stott Despoja and Synon

Substitute members: Senator Murray for Senator Stott Despoja

Participating members: Senators Allison, Brown, George Campbell, Colston, Harradine, Margetts and O'Brien

Senators in attendance: Senators Collins, Crossin, Ferris, Murray, Stott Despoja and Synon

Terms of reference for the inquiry:

The employment incentive and education impacts of the Government's taxation reform legislation proposals, including:

(a) the scope and effectiveness of the proposed zero-rating arrangements for education in maintaining its quality, accessibility and affordability;
(b) the effects on employment;
(c) the effects of the proposed GST treatment on the quality, accessibility and affordability of employment services;
(d) the effects on education of imposing a GST on, or zero-rating or exempting books and associated education resources;
(e) the effects on education of imposing a GST on ancillary resources, services and commercial activities, including the effects on overseas students;
(f) the effects of the proposed changes to the tax system on employment;
(g) the effects on wage costs, particularly if the basic necessities of life are taxed;
(h) the scope and effectiveness of changing the unemployment benefits, pensions and Newstart Allowance 'tapers';
(i) the effects of the proposed changes to the tax system on training and adult education; and
(j) options for amendments to improve the fairness or efficiency of the proposed legislation.

WITNESSES

Committee met at 4.09 p.m.

DIXON, Professor Peter Bishop, Centre of Policy Studies, Monash University

CHAIR—I call the committee to order and declare open this public hearing of the Senate Employment, Workplace Relations, Small Business and Education References Committee. Today's additional public hearing in Canberra is part of the committee's inquiry into the GST and a new tax system. The specific terms of reference given to this committee include considering the likely effects of a GST on employment and job creation. To this end, the committee commissioned Professor Peter Dixon from the Centre of Policy Studies at Monash University to report on the impact of the government's proposed taxation package on employment.

The committee released Professor Dixon's report on Tuesday. It was decided to hold this additional public hearing to enable Professor Dixon to appear before the committee and to give evidence in relation to his findings.

Welcome, Professor Dixon. I invite you to make an opening statement and, at the conclusion of your remarks, we will proceed to questions.

Prof. Dixon—What I did was try to work out the implications of the GST, or the government's package, for employment classified by industry, occupation, region, age and gender. So there are five dimensions to this story. And it is all short run, so it is the effects in the first one or two years.

To understand the effects you have to have a little bit of background. There are two simulations. One simulation is one in which everything goes well: we are all very well behaved in the labour market and we recognise that the income tax cuts that are being offered by the government are compensation for the jump in the CPI, so the labour market works very well and we do not insist on our wages jumping with the CPI.

Under those conditions—and these are the results that I gave to the other committee last month—the short run effects are something like this.

Overhead transparencies were then shown—

Prof. Dixon—There is a small increase in aggregate employment. I should emphasise again, as I did last time, that that is not really from the GST. The change in indirect taxes does not generate the increase in employment. What generates the increase in employment is the fact that the package is not balanced. That means that we could have that increase in employment in the short run by just simply spending an extra $6 billion or $7 billion or whatever the lack of balance is in the package. It is not the substitution of one set of indirect taxes for the other set of indirect taxes that creates the increase in employment; it is the fact that there is some fiscal expansion involved in the package.

With the increase in employment there is an increase in consumption. There is quite a strong increase in investment expenditure and that is because the package involves a reduction in the costs of capital. There is a considerable amount of taxes coming off capital goods, particularly vehicles, and that reduces the costs of capital and so the capital-labour ratio for the economy will rise. In the short run that involves a considerable amount of investment, so there is a boost in investment—that is that 4.2 per cent.

We Australians do not like to save very much, so most of that extra investment would be financed by foreigners, so there would be an increase in capital inflow which would strengthen the exchange rate. If foreigners want to invest in our country, they have to buy our sort of money, they have to buy our dollar. That sends the exchange rate up and so there would be real appreciation, something like three per cent. There would be a reduction in our exports—real appreciation in the short run would hurt our exports—and there would be an increase in imports. The mechanism here is that the real appreciation would be the mechanism by which resources are transferred away from our traded goods sectors towards investment, in the short run.

There is another scenario, which is somewhat less favourable, in which we do have our wages jump with the CPI. Under those circumstances, this is more the story at the macro level. You would get a loss in aggregate employment in the short run of, say, 120,000 jobs. With the loss of employment, consumption would fall. Investment would still rise, but not nearly as much. There would be a smaller real appreciation—with less investment, you would get less real appreciation. So it turns out there would be less damage to exports—exports would contract only by about half as much as in the other scenario—and imports would rise less strongly.

The reason that you get the big employment loss is—you can think of it like this—that if wages move with the CPI, then wages are going to move ahead of producer prices, because consumption prices will move up relative to producer prices—the gap being the GST; if wages move with consumer prices, then wages have moved ahead of producer prices, there is profit squeeze, the profit maximising levels of employment fall, and that is where you get the short-run reduction in employment.

That is by way of macro background. Let us now look at the effects. Firstly, we will look at the industries. The industry effects are in table 1 of the report, and I have taken a few representative examples. If we take the central simulation, this is the favourable case, and what we are talking about here is finding out how this increase in employment—that is the 34,000 jobs shown there—is distributed across the industries. There is real appreciation of the currency, which is bad for agriculture. That means that employment in agriculture are likely to fall. Employment in mining, which is also an export oriented sector, would also fall—not by as much as in agriculture, mainly because of the cost reductions from the proposed cuts to indirect taxes. The cost reductions are more favourable to mining than to agriculture.

Textiles, clothing and footwear is another trade exposed area. This time it is import competing, so real appreciation of the currency is bad for textiles, clothing and footwear; it makes imported textiles, clothing and footwear cheaper. So that is a sector that loses out. On the other hand, building materials or anything that is investment oriented looks good in the short run. Remember, there was an investment boom in the short run, so anything that is investment oriented looks okay. So that is building materials.

Motor vehicles is an area that looks good—employment there looks good because they have very favourable cuts in the existing taxes, and cars are quite investment oriented. Construction is obviously a winner—it is investment oriented. Wholesale and retail trade I picked out because it is a typical consumer related thing: if consumption goes up by one per cent certainly retail trade tends to go up by about one per cent, so that is a winning sector in the central simulation.

Now to the big losers. The big losers are in tourism. Exports are going to be GST free except for tourism and education exports, which will both look bad under this package. Think about it from the point of view of the foreigner. The appreciation of the Australian dollar means that that increases the cost of a holiday to a foreigner and then, when they get to Australia, they find that the hotels, food, shopping, all the things they buy in Australia are going to be more expensive than they otherwise would have been because of the GST.

So for a typical export good this effect will not happen because for a typical export good there is appreciation of the currency but costs in Australia will have been reduced a bit. So for a typical export good this will not happen, but for tourism it certainly will happen that the costs of the typical holiday to the foreigner will be increased by quite a lot by the government's proposal. And that will hurt air transport, it will hurt hotels, it will hurt various entertainment sectors and so on. So it hurts anything that is tourist related.

It works the other way, too. The package will make a holiday for Australians in Australia expensive relative to a holiday in Hawaii or somewhere else overseas. So more of us on the margin will decide that we will not have our holiday in Sydney or the Gold Coast; we will have our holiday in Hawaii, perhaps, if we are lucky enough.

So in the central simulation there is that story. What stands out there is tourism and education—if I had put education there we would have got a negative for education as well. It is the same sort of argument. Foreign students studying in Australia will find clothing, housing and food all more expensive, so we will lose out competitively to other places where foreign students can study.

In the sensitivity simulation, the one where there are 120,000 jobs lost, the results are duller. They are more even, if you like. Let us take agriculture. There is not nearly as much real appreciation, there is not nearly as much stimulation of investment in this unfortunate scenario. So in fact agriculture does a bit better in the weak scenario than it did in the other. Mining does better—lower appreciation of the exchange rate. Textiles, clothing and footwear, the typical import competing industry, is faced with two forces here. As we go from the central simulation to the sensitivity simulation, two things happen: there is less appreciation of the currency, and that is good for TCF; on the other hand, there is less domestic demand, and that is bad for TCF. In this case it looks like the less domestic demand is the stronger force. So TCF is actually worse off as you go to the disaster scenario here.

Investment is not nearly as strong, so you can see that nothing good happens for building materials. Investment is not nearly as strong so life is not nearly as good for motor vehicles. Investment is not nearly as strong so life is not as good for construction and so on. With tourism, the lesser appreciation of the currency—the same argument—is good for tourism. On the other hand, air transport and hotels depend very heavily on domestic demand, not just foreign demand. So as we go from the central simulation to the simulation where the labour market does not work very well, in fact air transport and hotels look worse as some of us choose not to have a holiday at all. That is the flavour of the industry results.

Now let us get from industries to regions. Here are the states and the territories. Just concentrate, perhaps, on the central simulation. The thing that hits you in the eye straight away about those results is the narrowness of their range. Western Australia wins. Western Australia wins everything—they won the Sheffield Shield and they won the football—so Western Australia wins the GST competition here, but not by much. The important thing is they get 0.59 per cent stimulation of employment, and the area that comes bottom is the Northern Territory on 0.29. So the range is very narrow.

Now why is the range so narrow? The state and territory economies are beginning to look awfully alike. Employment in all these places is totally dominated by insurance and banking and education and health and welfare and whatever. Seventy-five per cent of employment is in these service areas, and it is the same right across the nation. The things that make us different as Victorians is that we have our textiles, clothing and footwear, and we have our motor vehicles. The South Australians have their motor vehicles—

Senator FERRIS—And we have the Crows.

Prof. Dixon—And you have the Crows, whatever. But these things are tiny—not that the Crows are tiny. As employers of the population, textiles, clothing and footwear accounts for 1½ per cent or something now. Even mining is tiny—and manufacturing. So all of these things that make us different are getting less and less important. When you take national results of the sort that I have been going through to the states, you are really struggling to find big differences between the states.

Western Australia wins this competition for quite a strange reason: they win it because they are rather light on tourism. Tourism was the worst hit sector and being light on tourism is a very fine thing in this context. Western Australia is heavy on mining, but mining is not too bad relative to, say, agriculture. Mining did better than agriculture. Western Australia is heavy on mining and not so heavy on agriculture.

The Northern Territory does the worst. It came last because it is heavy on tourism, which does badly, and it is also very heavy on a very export exposed agricultural activity, northern beef, which does quite poorly in this story. You will notice that as we go across to the sensitivity simulation, Northern Territory improves its position relative to the other areas, and that is because Northern Territory industry is rather sensitive to the exchange rate. As we go across to the other simulation where the exchange rate did not strengthen nearly as much, the northern beef industry looks a lot better and Northern Territory moves up in the pecking order.

The results in the sensitivity simulation are really rather uniform, the same as these ones—even more uniform in a way because agriculture and mining, which are things that distinguish the states, do not look as bad in the sensitivity simulation as they do in the central simulation.

Let us move to the next layer. I have selected results from table 2. The thing that shows out once you get to regional Australia is that, with one exception, the capital cities win in their regions.

CHAIR—I apologise; we have to adjourn for about 10 minutes to attend a division.

Proceedings suspended from 4.28 p.m. to 4.35 p.m.

CHAIR—Professor Dixon, please continue.

Prof. Dixon—We have got the story to regions now. The clear message that comes through from this is that the capitals win relative to the rest. That is mainly because the capitals—and it is rather a negative idea—do not have agriculture and do not have mining, so they win. The only capital that does not win in its state is Melbourne, and it comes second to Barwon. That is where the Cats come from. But that is not the reason that Barwon wins in Victoria; the reason it wins is because it is where the motor vehicles come from, and motor vehicles is a winner in the short run.

They are selected divisions. All of the results are there. I put in Moreton because that is the Gold Coast and the sun shines, whatever, and that is tourism dominated. It did not show up as badly as I thought it might. It is down a fair amount on Brisbane but it is not quite as bad as I thought it would be. That is because, first, tourism is not quite as important as I thought it was for Moreton and, second, the tourists, although they may stay on the Gold Coast, actually spend a lot of their money somewhere else. They spend a lot of their money in Sydney on their shopping and on their air fares and so on. So Moreton does not suffer quite as badly as I thought it might from what we are saying about tourism. Also, in this favourable simulation the rest of us go to the Gold Coast, so there is a little increase in domestic demand.

When we go to the unfavourable simulation, when we do not go to the Gold Coast anymore—or not in the short run—then Moreton actually shows up as the worst affected of the whole 57 regions. It moves into 57th place. I have put in south-west Queensland just as an example of a rural division. Far west New South Wales is where Broken Hill is. That is a mining area; it comes out looking weak. That is employment by division.

Now we go to occupations—we have only got about three more dimensions to go. For occupations, this is a representative selection from the 340 occupations in the table. These results follow quite easily from the results that we have for industries. Farmers do not look very good. Engineers that are connected with construction look okay—that is occupation 34 there. Aircraft engineers—you remember the airlines did not do very well out of all of this because of the tourism result—do not look very good. Vehicle painters, on the other hand, look okay. Clothing trades do not look very satisfactory because of what happens to the TCF sector. Then I just threw in general clerks here as an example of an occupation that does not really depend very much on all of this. Your general clerks are employed everywhere, so the results for general clerks never really move very far away from the overall average. So if employment as a whole is going up by 34,000, it is going up by 0.38 per cent, then general clerks have got to do something pretty similar—and there it is at 0.55.

The last lot that we will look at is gender and age. There is a bit of a representative story there. This is an example of one where the mates have won. This is good for men relative to women.

Senator FERRIS—'Mates' is a non-gender term. What a surprise.

Prof. Dixon—This again follows fairly easily from the other results. Remember that the winning areas of the economy are construction and motor vehicles. The losing areas are textiles, clothing and footwear and especially tourism. Women, especially young women, are very heavily employed in tourism. For example, waitressing is quite a large employment area. Young males are quite heavily attached to the construction industry.

So the structural changes in the economy in the short run caused by the change in the tax mix favour males, particularly young males, and are quite damaging to the relative prospects for young females, mainly because of the connection of young females with tourism. Old workers do poorly out of all of this, and that is because farmers are so old. This is an agriculture thing. If you go to females aged 65 to 69, there are not very many of them; in this favourable scenario their employment prospects fell slightly, but this is nine jobs. These models are highly accurate: we have it down to the last nine jobs there.

The last slide I want to show you is this one. In a way this is the type of thing that we should have been doing for you but have not had the time to do. What we should be doing for you is talking about costs of adjustment—that is really what you wanted to know. Costs of adjustment are all about whether people lose their jobs.

Because I tell you that this change in the tax mix is bad for aircraft engineers—No. 148—I am projecting five per cent loss in employment for that occupation. Is that going to cause trouble or not? To answer that question you have to think about what the growth prospects were for employment in that category, so you need a forecast. It turns out that in that particular example our forecast is, in fact, for these people, that employment is falling. That is a bit of a problem, probably. You also have to think about how many people are leaving that occupation voluntarily. But that is an example where you have quite a negative result because of what is happening mainly to tourism and therefore air transport. You have quite a negative result combined with a background forecast where employment is falling.

On the other hand, for vehicle painters all their Christmases are coming at once. They have really good employment prospects at the moment. They are employed both in the motor vehicle industry and more heavily in repairs as we are all getting more fussy about our cars and driving them into each other more often and so on, and having them painted more often and fixed up. Their employment prospects actually look rather good. And we are now doing something that enhances them further.

What would be nice is to take the type of study that we have embarked on over the last week or so and try to spin it out to whether it really does mean adjustment costs or not adjustment costs. I will leave it there.

CHAIR—Thank you. I have referred to the discussion that occurred when you were last before the select committee. One of the issues discussed there was the likelihood of the sensitivity simulation as compared to the central simulation. What was discussed there was the comment that Mr Murphy was suggesting that it was unreasonable the idea that wages would jump with the CPI.

The second scenario there, the one that leads to the 120,000 jobs, depends on workers pursuing wage rises in response to price increases. Isn't it a feature of our industrial relations systems that workers do, in fact, pursue wage rises which are granted at regular intervals, whether through the IRC or enterprise arrangements?

Prof. Dixon—That has been a feature of our system. I think it would be quite critical to have a change. If we were to introduce a GST, workers would really need to be convinced that the income tax cuts that are going along with the GST are compensation for the rise in the CPI. If that message cannot be sold then we probably should not be introducing the GST.

CHAIR—Isn't your second scenario simply saying that this will continue and, in fact, workers will possibly even ask for slightly higher wage rises because prices will have risen?

Prof. Dixon—It is more a warning. It is not saying that that will happen. I think it is quite likely that it will happen, but that is not the important point here. The important point here is that unless we can be reasonably sure that it will not happen then we should not have this particular set of tax reforms.

CHAIR—The government refers back to occasions under the accord where some trade-off occurred, but what it fails to acknowledge is that there was an accord, which is completely different to the current situation. In fact, in the discussion before the select committee you referred to the ACTU's evidence to the select committee suggesting that there were also concerns about other changes in the tax system and it being compensation for bracket creep.

Prof. Dixon—The ACTU, that very day I think, had a submission which said that they viewed the income tax cuts being offered in the package as not compensation for a jump in the CPI but as compensation for bracket creep over the previous eight years. I think that is what they said. It does not matter whether they are right or whether they are wrong, what they are signalling there is that they have not accepted the idea that wages should be allowed to fall relative to the CPI with the introduction of the GST.

CHAIR—So rather than there being an accord, or there being silence on an accord, there is in fact no accord.

Prof. Dixon—Yes.

CHAIR—Isn't it also a fact that the government cannot control these outcomes, that wage rises really go beyond the ambit of government's control under our current system? I suppose that draws on your earlier comment that they would have to change the system in order to control them.

Prof. Dixon—There is still enough trade union power and influence in the labour market to suggest that you would want to reach some sort of accord with the trade union movement with the introduction of these tax changes. If these figures are anything like right then the risks of not reaching such an accord are quite great.

CHAIR—Assuming that compensation was inadequate—and we are yet to see the results of the distributional study before the select committee—many workers will find themselves worse off. Do you think that this increases the chances that they will seek wage rises?

Prof. Dixon—Yes, I think it does.

CHAIR—Doesn't all of this add up to the one thing, that your second scenario is more likely because compensation will be inadequate and workers will do what they regularly do in those circumstances?

Prof. Dixon—No, I do not think I would go as far as that. The second simulation is a clear warning that if the government does not have that base covered then it should think seriously about whether it wants to introduce these changes at all.

CHAIR—Is it a warning about the likelihood of the first simulation?

Prof. Dixon—The first simulation shows some short-run benefit but, as I probably made it clear at my last appearance here, I do not think there is much in the way of long-run benefit. Putting the two simulations together you can see a definite short-run risk—that is the second simulation—for not much long-run benefit, which is roughly how it goes.

CHAIR—So almost a comparison between the two models gives you that message?

Prof. Dixon—Yes.

CHAIR—In relation to the best-case scenario, which I suppose is what I would call the central simulation, you have drawn on the issue that we really should be looking at adjustment costs. I have looked at the situation and I did a calculation of how many losses were involved and got a figure of about 50,000 job losses in a scenario where there was a net gain of 30,000 jobs, in order to challenge this view that labour will be mobile, which was one of Murphy's main assumptions. If we are not addressing the costs of adjustment, as you have quite rightly pointed out, that in a sense adds to the risk in the short run, doesn't it?

Prof. Dixon—The way that issue should be addressed is in the background of forecasts. The calculation that 50,000 jobs are lost in the losing occupations or the losing industries does not really address the issue properly. What these results are saying is that employment in those occupations or industries or whatever categories we are talking about here will be 50,000 less than it would otherwise have been. That alone does not tell you about adjustment costs. If employment in those occupations was booming, then all that means is that the industries involved would be hiring at a slightly slower rate than they otherwise would have been doing and there is no great adjustment problem. Or if large numbers of people were leaving those industries or occupations voluntarily, again, there is not a big problem. So when we say there are 50,000 jobs lost in some area, we should line it up against the trends in employment in the area and what your best forecasts are. That is what I have started—

CHAIR—How long would it take you to do that exercise?

Prof. Dixon—Another week.

CHAIR—Another week?

Prof. Dixon—At the Centre of Policy Studies we prepare forecasts on a fairly regular basis for the various state training authorities. A calculation of the costs of adjustment involves looking at the effects of the change—that is these sorts of numbers—and asking yourself, ‘Does that mean that people are going to be thrown into unemployment?’—which is, of course, very costly—or, ‘Does it mean that the rate of hiring will be slightly slower than it otherwise would have been?’

CHAIR—Okay. I note when you were last before the select committee you said that on top of Murphy’s long list of criteria for economic modelling you would add all matters addressing transitional paths and forecasts. Unfortunately at this stage we did not pick up the forecasting. The main reason I flag that concern is that of that 50,000 negatives, 46,000 of those were in occupations where there was a net decline before you took into account the forecasting.

Prof. Dixon—That is in broad occupations—

CHAIR—It was in industry sectors.

Prof. Dixon—There was not a gain in employment in a closely related occupation.

CHAIR—That is right, so you are looking possibly at quite severe mobility issues in relation to workers.

Prof. Dixon—Possibly so, but I keep on emphasising the point that you need to size it up against a reasonable forecast.

CHAIR—The stark example is what you have up on the board. You have waiters, many of them women, a forecast of 3.69, and your simulation of negative 5.18. Where does your female waiter go? Does she become an aircraft engineer?

Prof. Dixon—No, that actually is a bit of a counter example. Waiters, because of the strength of tourism, actually have pretty good prospects. There is an annual growth rate of nearly four per cent.

CHAIR—But the cental simulation has them going back more.

Prof. Dixon—The central simulation shows them losing five per cent of their total.

CHAIR—So there is still a net loss?

Prof. Dixon—Basically they lose a bit more than a year’s growth. That example is not nearly as stark as this one. That is the worst sort of case.

CHAIR—Clothing trades are another.

Prof. Dixon—Clothing trades are another bad case. There will probably be plenty of other bad cases. The worst cases are where the occupation, region, industry—and whatever all these dimensions are—are in decline and the reform that is taking place is bearing down on them. The waiters are temporarily bad.

CHAIR—I only have two other questions and I might seek, if it is appropriate, to put some other brief matters on notice to you. It is clear, as you have said, that some regions do quite badly in relation to losing a lot of jobs on your second simulation: the Hunter, 363 jobs; Illawarra, 363 jobs; Far North Queensland, 191 jobs; and Tasmania really suffering with over 2,000 jobs. What impact would this have on regional levels of unemployment? Given what you have said about how cities fare, isn't that going to encourage more people from regions into cities?

Prof. Dixon—Yes. I duck the question of unemployment because that really does depend on prospects.

CHAIR—Adjustment.

Prof. Dixon—An adjustment, and it depends on natural mobility. To the extent that rural Australia is in trouble and employment opportunities are declining, this is bad. It says the background forecast is decline and now we are doing something which reduces employment quicker than it otherwise would have been reduced. That is an example of an adjustment problem. But I have not done the hard work to line up all of these sorts of numbers against all of these sorts of numbers.

CHAIR—The problem we face is that potentially this package has significant adjustment issues, and there is no adjustment component of the package at all.

Prof. Dixon—Right.

CHAIR—Despite the fact that the Productivity Commission accepts that adjustment issues are appropriate measures for government to be dealing with.

Prof. Dixon—Yes.

CHAIR—Can you explain why it is that the lower skilled occupations are those that lose the most jobs of all occupations?

Prof. Dixon—Is that right in percentage terms? I cannot remember off the top of my head. It will be because they are associated with industries that are in decline or are hard hit by the changes. We will just look it up. I am looking at page 25. It is not such a big figure really. It is 0.23 per cent growth in the favourable scenario against 0.39. In the unfavourable scenario, it is negative 1.51 against negative 1.31. In these two simulations, low skilled workers lose a little relative to average, but it is not really a big deal. Their mix of employing industries is slightly unfavourable.

We might be able to pick out one or two that are looking very big. For instance, I am looking at betting clerks. I did not realise that would be low skilled, but with 295 betting clerks I can see quite a big number. Ticket sales persons is another big number. That will all be entertainment tourism related. There are some more biggish numbers down here—308 as ushers and porters. That will be tourism related.

CHAIR—That picks up the point that it appears that our service industries, which have been our job growth industries, are hit the hardest. You have 29,000 from entertainment, 21,000 from transport and communication, and 17,000 from wholesale and retail trade. Is it your view that a tax that taxes job growth industries or forecast growth areas is a sensible idea at the moment?

Prof. Dixon—As I have said before, I think bearing down on tourism is not a sensible idea. If this package goes ahead, apparently it is reasonably administratively simple to at least put GST on package tours. I believe that would improve things a bit. I reported on that in appendix C, where there are some simulations on that. It does not make sense to GST exports in general, and that is recognised in the package, and it does not make sense to pick out tourism as being the only major aspect of our exports which is going to be GSTed.

Senator SYNON—I want to talk a little about your concluding results on page 11 of your report. You make the statement that:

The overwhelming conclusion from the detailed calculations presented in this report is that the Government's tax package will only have minor structural effects on employment in the short run.

I think that is worth reading into the *Hansard* because I think that is a very favourable comment that you have made.

I have a question regarding your term 'minor structural effects'. You are not actually talking therefore about job losses in the demand efficient nature; you are actually talking about structural job losses which is the round pegs in the square holes. Is that right?

Prof. Dixon—I am looking at literally thousands of numbers here and I am seeing that the overwhelming majority of them are between plus and minus two. So we are doing something to the economy which for the worst affected occupations—with some exceptions, which we will get to—is reducing employment opportunities by about two per cent in the short run, and for the best affected occupations is increasing employment opportunities by plus two. So that is the range. And employment in these occupations and categories regularly increases over a year by plus two or minus two. So that is what I meant when I said that the overwhelming impression was that the structural effects were rather minor. There are some exceptions and they are mainly to do with tourism. The exceptions in the negative direction are to do with tourism; the exceptions in the positive direction are to do with construction.

Senator SYNON—You pointed out, in relation to the chair's question about waiters and waitresses, that the tourism and hospitality industries are both still undergoing quite a considerable period of growth. What we are not necessarily talking about here is net job losses, but that perhaps there will not be as many jobs as a result of growth as there otherwise might have been. Is that correct?

Prof. Dixon—That is right. That is what I keep on emphasising. What we really need here is a study of adjustment costs which involves exactly the sorts of issues that you are talking about at the moment.

Senator SYNON—Presumably the kind of minor structural unemployment that we are talking about here is nothing compared to the massive structural unemployment that we went through in the mid-1980s to the mid-1990s in terms of the realigning of the country's industries?

Prof. Dixon—What you usually find out is that the structural changes are actually rather minor compared with macroeconomic changes. If you look at the sensitivity simulation, it turns out that the structural effects of the sensitivity simulation are actually a bit less than in the other simulation. With less exchange rate appreciation there is less damage to the export orientated industries, there is less investment boom and so on. So there is less shifting around in the economy in this simulation than in that one.

But I know where I would rather be. I certainly would rather be in the central simulation. We do not have a big structural problem in the sensitivity simulation. We have a macroeconomic problem. We have 120,000 jobs down the drain and they are spread all over the place; practically every occupation and every region and every gender and all the rest of it are nice big negatives.

Senator SYNON—I guess we could sit here and dispute and discuss the relative factors in the central simulation as opposed to the sensitivity simulation. I am glad to hear you refer to them in those terms because earlier you were referring to them in terms of favourable and unfavourable, and I just assumed that they were two economic models that we were looking at and that they did not have an inherent value. But, since you have raised that issue, I would like to ask what evidence there is, from overseas experience or otherwise, that suggests that your second scenario is even plausible within the context of today's rapidly changing industrial relations market.

Prof. Dixon—I do not think overseas evidence is very relevant. I do not know of any evidence from overseas, but I am pretty sure it is not very relevant. This is peculiarly an Australian phenomenon in the workings of the Australian labour market in which CPI increases have traditionally been a very important part of wage negotiations—now perhaps a less important part than they were a few years ago, but nevertheless a very important part of wage negotiations even today. So, if one were to embark on this particular set of tax changes, one would have to have a good community understanding that on this occasion it is not appropriate for wages to jump with CPI.

Senator SYNON—Is the wage fixing system now not primarily focused on decentralised agreement making at the local level as a result of improvements in productivity rates rather than the CPI? Isn't that the trend in Australia?

Prof. Dixon—No. For a lot of us, we find it hard to figure out what our productivity is but we sure as hell can see what the CPI did. That is the main thing that we still point to.

Senator SYNON—But isn't that a rapidly changing concept? By constraining ourselves within that model, are we not really talking about a labour market of the seventies and eighties rather than a labour market of the next millennium?

Prof. Dixon—We are not up to the next millennium yet.

Senator SYNON—We will be in a year.

Prof. Dixon—We will be when all this happens.

Senator SYNON—We will be when the GST is introduced.

Prof. Dixon—I do not have to actually win this debate with you at all. All I have to do here is make the point that I have made several times which is that this should be a really important part of the way that the government sells this package. They must avoid this movement of wages with the CPI on this occasion.

Senator SYNON—And how are they going to do that?

Prof. Dixon—If they are not sure that they can do that, then that would be a good reason for not doing the package.

Senator SYNON—I will move on to tourism since that is a major industry where you have identified potential job losses. Was the elasticity you used negative three or negative two?

Prof. Dixon—Today it was negative three.

Senator SYNON—I do understand that there was some controversy about that earlier.

Prof. Dixon—As part of the last study, I did a sensitivity in which the elasticity was changed to negative two. The default option that I am using is negative three. If you go to appendix C, you can see what the effect on tourism is of moving the elasticity from negative three to negative two.

Senator SYNON—Just tell us about that would you, Professor?

Prof. Dixon—The sensitivity?

Senator SYNON—Yes—of the moving from negative three to negative two.

Prof. Dixon—With the negative three, I think tourism exports dropped by 12 per cent, or something like that, in the short run. If we go to appendix C, page 37, chart 3.5, you can see tourism exports diving down by about 13 per cent.

Senator SYNON—I am interested in getting a figure. When you say we could be looking at up to an eight per cent job loss with a three per cent elasticity in tourism, I am wondering what it might be with a two per cent factor.

Prof. Dixon—If you compare page 37, chart 3.5, with page 47, chart 5.5, you can get a bit of an idea. With the elasticity changed to negative two, tourism in the short run drops by 10 per cent, whereas before it dropped by 13 per cent.

Senator SYNON—So it is a significant factor?

Prof. Dixon—Yes. As I have said all along, I do not think I know the difference really between the negative three and the negative two.

Senator SYNON—Obviously I am no economist but, in terms of what I have read, negative two still seems to be extremely high. Both the Tourism Council of Australia and the Tourism Task Force regard Geoff Carmody as Australia's pre-eminent tourism economist, and he says that negative two is way, way too high. The Office of Tourism suggested to us that it was more in the order of negative one.

Prof. Dixon—I am surprised you said that about Geoff Carmody.

Senator SYNON—That was evidence to the select committee which is on the public record.

Prof. Dixon—I am surprised about that because I checked with Access Economics to see what they thought and they said negative two to negative three was okay. If you really believe negative one—

Senator SYNON—That is what the department is telling us.

Prof. Dixon—But what would you do? If you believe negative one, you are saying that—forget about GST—what we should do is tax the hell out of tourism. If you believe a number as low as negative one, then you are saying that every time there is a one per cent increase in the cost of a holiday to the foreigner, one per cent less of them will come. So what will happen to revenue? Nothing.

Senator SYNON—But isn't that exactly our point, that for too long the services industries have not actually been shouldering their fair share of tax in this country? Obviously we do not believe that the tourism industry is as sensitive as you are suggesting with an elasticity of negative three.

Prof. Dixon—It has nothing to do with shouldering a fair share. That is quite irrelevant here. If you did really believe these very low elasticities—which clearly I do not—then you would be believing that we had tremendous market power. That bureau of tourism that you quoted actually had numbers of less than negative one, like negative 0.2. That is a crazy number. That is saying that we could increase the costs of tourism to Australia, that hardly any less of them would come and we would make a lot more money out of it.

Senator SYNON—Presumably currency fluctuations would be a much greater deterrent or incentive for people to visit the country than this.

Prof. Dixon—Yes, and look at what is happening. At the moment we have a tourism boom going on from the United States, Europe and so on, where we have become cheap, and tourism from Asia has fallen off quite sharply where we have become expensive for the Asians. There is plenty of price elasticity there.

I have gone through the research done by that bureau of tourism and I do not believe a word of it. If you really think that the elasticities are tiny numbers like the ones that they are talking about, forget about GST and tax them very heavily on arrival. Show them a koala bear on arrival, charge them many thousands of dollars for looking at it, then send them home again and it's fine. If you believe the elasticities are as low as that, you will make an absolute fortune for the country.

Senator SYNON—What I am trying to demonstrate is that there is no one view on this. Obviously you, Geoff Carmody, the Tourism Council of Australia, the department and the Tourism Task Force all seem to come at this from a different angle.

Prof. Dixon—I am disappointed about what you are saying about Geoff Carmody. I will ring him and check again, but I was under the impression that negative two to negative three were perfectly sensible numbers for this.

Senator SYNON—I wish I had his quote here, but he said it is way, way less.

Prof. Dixon—Numbers like those that Tourism Council or whatever were talking about are based on extremely poor econometric work. Again, that is actually detailed in appendix C. In appendix C I discuss the mistakes that they make in their econometrics and dismiss those numbers as being worse than useless because they are misleading.

Senator SYNON—Professor, I would love to ask you a dozen more questions but I have to defer to my colleague. Perhaps I could put a couple on notice if you were prepared to accept them.

Prof. Dixon—Yes, sure.

Senator FERRIS—On behalf of all those people who use aircraft fairly frequently, I, for one, hope there is no decline in the number of aircraft engineers that are appointed, otherwise, as you say, there will need to be more than one increase in the number of senior firefighters that I notice you have listed here. I must say that I was intrigued by that. Perhaps you can explain to me how it is that you are able to decide that there will be one more senior firefighter that gets a job as a result of our national tax package?

Prof. Dixon—Well, I can decide that—

Senator FERRIS—These numbers are very small. There is not just that one; I am not just picking out that one. There are, for example, uni lecturers, legal professionals, economists and life scientists. How can you get sensitivities that finely?

Prof. Dixon—This is a question that is often asked about the numbers of significant figures that economists quote. I have already admitted that I was not sure whether the elasticity for tourism was negative 3 or negative 2, and I have admitted that that means that I am not sure whether exports fall by 13 per cent or by 10 per cent. I have admitted all of that. So why do I quote numbers to four significant places and I am prepared to write one there? There is a good reason for that and the reason is that I have to make sure I do my arithmetic right. These calculations that you are looking at are absolutely gigantic. So I am now doing what accountants do. I am making sure that everything adds up perfectly because I am checking and checking that the arithmetic is done correctly, that the computing is right. I put up a number here; there was a nine or something—read it as zero. But I want a nine, not because I believe in nine or that I think I know the difference between nine and zero in this context. I have put it there because I am desperately keen to make sure that I have at least done my arithmetic right. I would have done the arithmetic wrong many more times than I have done it right but, by the time it gets to you, I am pretty sure the arithmetic is right.

Senator FERRIS—Well, I am not sure in relation to aircraft engineers whether I am reassured by that.

Prof. Dixon—The point about aircraft engineers is that it is not much less in the way of aircraft engineers per flight. The reason that aircraft engineers went down there is that we will be flying less.

Senator FERRIS—I understand what you are saying. Professor Dixon, are you in favour of tax reform or do you favour the current indirect tax system?

CHAIR—What has that got to do with it?

Prof. Dixon—No.

Senator FERRIS—No, what?

Prof. Dixon—I do not think the government has made a good case yet for this particular set of reforms. I think I came at it with a totally open mind. I looked at it and the best I can understand about all this is that the long-run benefits are rather minor; there are some short-run risks; and the present system is not broke. I think that is an important part of the analysis. You might believe in all these changes if you thought that the present system was not going to generate enough revenue for you in the future, or whatever, and I do not think the government has made a good case for that.

One of the reasons they have not made a good case is that the Treasury has refused to do any forecasts. I do not know where they think the economy is going without these reforms, but all they have done in that tax document is a lot of rhetoric and shouting about Botswana and so on. This is not analysis; that does not add anything.

Senator FERRIS—I just wanted to establish whether you preferred the current indirect tax system, and I guess that you have basically said yes in relation to comparisons with the present one.

Prof. Dixon—All I have said, Senator, is that, on the evidence before us at the moment, I would not embark on this particular set of tax changes—I will not call them reforms. It does not mean that I am opposed to all the changes, but, with this particular set, I do not think a good argument has been made for them yet.

Senator FERRIS—I understand what you have said. We only have a couple of minutes left for our group of questions. I did want to take you to your assumption that after-tax wages would effectively decline and that there may be some blow-out.

I know you made the comment that international experience is often irrelevant, but what about the international experience in relation to the implementation of very similar tax reform in New Zealand, Canada and Japan, where there was no wages blow-out? You, yourself, have assumed that real after-tax wages will improve after year one. I think you said that in the first year they would be 0.3 per cent higher under ANTS than otherwise, then 0.6 per cent, 0.7 per cent, 0.8 per cent, 0.9 per cent and then one, one, one. Where do you get to the point that you say there is a real chance that there could be a wages blow-out? You have agreed that wage earners are going to be better off.

Prof. Dixon—I do not want to defend the blow-out scenario strongly. I have never said that that was the more likely thing. I have said it is a definite danger. The very day that I presented that material here in this room, the ACTU confirmed that it was a definite danger.

Senator FERRIS—Yes.

Prof. Dixon—They did. Their evidence was absolutely spot on with what I was saying.

Senator FERRIS—They are representing one-quarter of the work force.

Prof. Dixon—Yes. You would think that, if workers were likely to accept the package and it was good for them, then their representatives might have taken a somewhat different view, but the representatives of workers did not take the view that the income tax cuts were sufficient compensation for the jump in the CPI.

Senator FERRIS—I am interested in your scenario in relation to Tasmania. The evidence that we took from the Tasmanian Chamber of Commerce was quite optimistic in relation to tax reform and I have the evidence here. Mr Abey suggested that one of the most significant things that could be done for the Tasmanian economy was the removal of excise on Bass Strait diesel. He said that, other than tax reform in general, the best thing that could be done for the Tasmanian economy would be to make exports cheaper across Bass Strait and, of course, imports more competitive as well.

I am quite surprised at your analysis of Tasmania. I am wondering if your scenario takes into account the fact that there is net migration out of Tasmania of around 9,000 people per year. Did you take that into account with your assumptions?

Prof. Dixon—This analysis would not depend on the fact that people have been leaving Tasmania in recent times. That would be important in the adjustment costs analysis. All that is going on here is that I have calculated that Tasmania would perform about average under this GST proposal.

Senator FERRIS—Would your assumptions have taken into account the point that the Tasmanian Chamber of Commerce make in relation to the removal of diesel fuel excise across Bass Strait?

Prof. Dixon—In a general way, they would have. They would have taken into account reductions in transport costs using diesel fuel. In all of these economic models, whenever we focus in on a really particular detailed question, we always do extra work on it. If that was a particular focus of attention, then I would want to check to make sure that we had the right transport models but, in general, you would think that a model like the one that we have would have got that pretty well right.

Senator FERRIS—It is a very significant difference in relation to Tasmania.

Prof. Dixon—That is a quantitative thing when you say it is a very significant difference. We would be able to look up for you, if you really want to know, what share of the costs in Tasmanian imported goods from the mainland—

Senator FERRIS—Sadly, we do not have time, but it would be interesting.

Prof. Dixon—I know we do not have time, but that is why it is so frustrating. We could know all these things.

Senator FERRIS—Not being a Tasmanian—

CHAIR—We feel the same frustration, Professor.

Senator FERRIS—I am just interested in that figure. Nine thousand a year is a very high number of people leaving Tasmania, and I would have thought it would skew quite significantly your figuring. I am just interested to know—

Prof. Dixon—But I do not see quite why that would make a difference to what you would say about the effect on the Tasmanian economy. What we are saying there is that, in the central simulation, I think, employment in Tasmania rises by 0.33 per cent above where it otherwise would have been. Now if employment in Tasmania is falling by so many thousand a year, this would mean that it would fall by slightly less than it otherwise would have done. The role of the 9,000 comes in when we are making a forecast about Tasmania as distinct from trying to figure out how different Tasmania will be under this set of tax changes.

CHAIR—Sorry, Senator Ferris; your five minutes are over already.

Senator FERRIS—Thank you, Chair.

Senator STOTT DESPOJA—Professor Dixon, I did not mean to be yelling ‘17’ at you, but that was the page number for the table that relates to your figures for Tasmania, so I think I will pick up on Senator Ferris's point, but perhaps from the opposite perspective. You say that, according to your figures, in the short term Tasmanian job growth will pretty much follow the national average—just below 0.38 per cent you have got on this figure.

In relation to the Murphy study, he suggests that in the long run Tasmania will be a net loser in job growth but, in particular, where the new jobs are coming from. So I was wondering if you would elaborate on that, the idea that Tasmania would lose out in the long term. But I think his rationale was, in relation to where the new jobs were coming from as the investment effects were felt, that Tasmania would not be very well off.

Prof. Dixon—I would have to look at what he said. And I do not have at my fingertips exactly what we said about Tasmania in the long term. We do have something to say about Tasmania in the long term but at the moment I do not know what it is. From what you are saying, it sounds to me like what Murphy was talking about is more a forecast. On the surface of it, I do not see why Tasmania would be adversely affected relative to the rest of the country by the GST. I think Tasmania has a fairly neutral outcome here.

Senator STOTT DESPOJA—If we were to provide you with Murphy's assessment, would you be willing to take that on notice?

Prof. Dixon—Yes, I can do that.

Senator STOTT DESPOJA—I think with tourism—and you are using a lower elasticity for demand—just in terms of jobs that you suggest might have a temporary impact, I note that you identify agriculture as one of the areas that would have a big short-term loss—and mining as well as agriculture, according to your paper. I am just wondering if you imagine that some of these jobs are going to be replaced over time as the export benefits come through. I note that in your paper you talk about in the long run having a beneficial effect, but in the short term being a very big loser. Can you explain that?

Prof. Dixon—In the short term, there is the appreciation of the exchange rate with the investment boom. So the main thing that happens in the short term is that capital starts to accumulate. So we are moving to a new, higher capital labour ratio. That is why most of these modellers show an increase in GDP in the long run because in the long run we will have more capital than we otherwise would have had, but they should not run away with the idea that that is a welfare gain. I have been through all that. That is understood, is it? Increasing your GDP is not necessarily a great idea.

When we have got the extra capital, then investment falls back again and the exchange rate drops back to where it otherwise would have been—or pretty close to where it otherwise would have been—and then the package is no longer particularly bad for agriculture and mining. It is only in the short run it is bad for agriculture and mining. It is always bad for tourism—that is a permanent effect. Eventually agriculture and mining wind up a little bit better off—in the long run.

Senator STOTT DESPOJA—I would not be a Democrat if I did not ask you about food exemption. I note that you were asked by the main committee to simulate a food exemption. I know that you used a fairly narrow definition—I think, $2.5 billion—and you saw that in the short term that would create around 8,000 jobs. If you were to use a wider definition—I am not sure, maybe $4.5 billion or $6 billion—what impact would that have on jobs?

Prof. Dixon—If you doubled the amount of food that was exempt you would roughly double the effects that I talked about. I thought about that a bit later on and figured that in fact I probably should have used a bigger food bundle, but no-one defined food for me at the time. Later on I thought that instead of food being worth about $25 billion in my calculation, or $2.5 billion on the GST, probably the right answer is more like about $40 billion. With that short-run effect, which was a gain of 8,000 jobs or whatever it was that I said, you could possibly make it 15,000. But these are tiny numbers. It is great for the individuals involved, but 15,000 people in the population of Australia is a very tiny percentage.

Senator STOTT DESPOJA—Thank you.

Senator CROSSIN—Professor Dixon, you said before that the push for a wage increase will probably be linked to a CPI change. In my experience you are right, it is very hard to stand in front of a bunch of workers and tell them you are not going to do that. How can the government guarantee that this will not happen when that has traditionally been the pattern of bargaining in this country, despite productivity increases in the work force, because no-one has been able to define what a productivity increase in the work force is. What would you anticipate the government would do to not link a wage increase to the CPI, or is it not possible to do anything about it?

Prof. Dixon—You are asking the wrong person. I think that is an industrial relations question and I really do not know the answer.

Senator CROSSIN—Okay. There are two or three other issues I want to go to. The first is the statement you have made about the trade-off between the 30c company tax rate and accelerated depreciation, specifically, that investment and employment in mining and agriculture will be negatively affected. What are the combined effects of both policy changes likely to be on the farming sector?

Prof. Dixon—This was a very busy week for me. I forgot that I had to learn that stuff too. The advice I got, from someone who knows a lot more about this than I do, goes like this. For farmers the company tax is basically irrelevant; they do not pay it. Unincorporated enterprises do not pay company tax. So reducing the company tax rate from 36 per cent to 30 per cent is a matter of indifference to them. But they do benefit from accelerated depreciation allowances. That reduces their personal income tax. So for farmers this particular problem seems to be unambiguously bad. They lose their accelerated depreciation allowance and they get nothing in return.

For mining it is a trade-off. Again, serious quantitative work should be done. I do not know why the Treasurer or whoever is making these suggestions is not doing it. Clearly, the trade-off here is that mining is very capital intensive and it is also very corporate. They pay a lot of company tax so they do get a benefit from a reduction in the company tax rate, and they will suffer from a loss of the accelerated depreciation allowances. The advice I got, but very informal, was that probably they would benefit more from a reduction in the company tax rate.

The other complication is all to do with dividend imputation and to what extent shareholders care about any of this stuff. The simplest case of all is where all the profits are sent to shareholders. It makes a difference whether they are foreign shareholders or domestic shareholders, but let us get away from that for a moment. Let us assume that we are all domestic shareholders, all the profits are sent to shareholders, and that they are all fully franked dividends and whatever. In that case it should not make any difference, none of this matters to them. It does not really matter whether the company pays tax or not because if the company pays more tax then the shareholders pay less; if the company pays less tax then those shareholders pay more. So it does not really make any difference.

The really complicated part comes when the companies are retaining profits. Then it makes a difference because if the company tax rate is only 30 per cent, it is as if the shareholders can reinvest in the company with a 30 per cent tax rate instead of a 36 per cent tax rate. If the company makes $1 profit, the shareholders reinvest 70c of it rather than 64c of it. So that is a win. However, if they sent it all back to the shareholders, then in the hands of the shareholders they pay their 47 cents in the dollar or whatever rate it is.

A bad thing about reducing company taxes is that it tends to lock the money into the companies. It would be better if money comes out to the shareholders and then they have another turn in deciding where they want to invest it again. Reducing company taxes is not a great thing at all. It basically locks capital into companies and gives the existing company an edge over a potential newcomer.

In theory I reckon that the company tax rate should be roughly at the top marginal rate of the personal level. It should be roughly at 47c, not coming down. The rate should go the other way—it should be high to encourage companies to retain all of their profits. If they have got a good investment project they should be sent back to the market to refinance it.

Senator CROSSIN—We have not had a chance today to talk about the Aboriginal and indigenous profile. Is there any comment you wanted to make about that?

Prof. Dixon—That was a very superficial piece of work. At a very aggregate level I looked at where indigenous people were employed, their occupations and their industries, and decided that there was nothing that stood out there as being particularly bad or good for them in relation to the structural effects of the GST. That literally was half a day's work. Again, if that question were to be investigated seriously it would need more resources than was put into this project.

Senator CROSSIN—Finally, I want to go to the issue of the gender figures. On your central simulation, or even the sensitivity model, females tend to lose out with both flips of the coin, basically. It seems the take-up rate in job creation is not all that great for women, or does it depend where those jobs are created?

Prof. Dixon—They lose mainly because of the connection with tourism, and with some import competing manufacturing industry, like TCF, they lose there. It comes back to the question of doing the forecasts. To know whether there is a real adjustment problem we should be matching these job losses against the prospects for the various female dominated occupations, regions, industries and so on. That is quite a robust result we got here, that the

GST happens in the short run to favour occupations and industries which are male dominated relative to ones that are female dominated.

CHAIR—Senator Synon found the reference to Mr Carmody that she was referring to so I will give her the opportunity to raise that matter.

Senator SYNON—I am happy to provide you with this if it is helpful. It is a *Hansard* extract from the Senate Select Committee on 5 February when Mr Carmody was appearing. Amongst other things—as it is three pages long—he said:

> I have to say that in my opinion the argumentation that was put to you yesterday by the Tourism Task Force seeks to extend to the limits of credibility the adverse claims associated with the ANTS package.
>
> Firstly, in relation to domestic tourism the TTF submission explicitly assumes that no increase in disposable income will be spent on tourism.

He goes on and says there are a number of other factors why he reaches his conclusion, which is:

> . . . it seems to me that the average elasticity that you should apply to inbound tourism is way less than two.
>
> For that reason, I think claims of elasticities of two or three applying to all tourists overstates and gives a misleading impression of the impact of the ANTS package on tourism.

Prof. Dixon—All I can say there is that I am surprised. I disagree with that conclusion entirely about the sensitivity being as low as that negative one.

Senator SYNON—No, he is not saying negative one.

Prof. Dixon—He said less than—

Senator SYNON—He said way, way less than two.

Prof. Dixon—So you would have to wonder what he was saying. Did he mean 1.8, or what?

Senator SYNON—Didn't you say earlier that you actually based your elasticity assumptions on his estimations?

Prof. Dixon—My impression was that Access Economics was happy with the numbers between negative two and negative three, but apparently that impression is wrong.

Senator SYNON—I am happy to provide you with this.

Prof. Dixon—That is fine, I will check with Access Economics. A lot of the econometric work that leads to these low numbers is faulty in the sense that what we are talking about here is increasing the cost of a holiday in Australia relative to the costs of a holiday anywhere else in the world.

Senator SYNON—Yes, but we are providing $6 billion worth of tax cuts for domestic tourism.

Prof. Dixon—Everyone is happy with the idea that we are increasing the costs of a holiday. It is not by the full 10 per cent, but we are increasing the costs of a holiday in Australia relative to the costs of a holiday anywhere else in the world. A lot of the econometric work does not get that right because they do not include the costs of holidays in the rest of the world.

Senator SYNON—The issue, surely, is the elasticity of the tourism industry. As you said before, currency fluctuations presumably have a far bigger impact on tourists coming into Australia than something like this.

Prof. Dixon—And we are seeing that at the moment. We are seeing a large switch in the mix of our tourists because currency fluctuations are making our holidays cheap for Europeans, cheap for Americans and expensive for Asians. Exactly as predicted by our sort of model, we are getting a switch in the mix of tourists.

Senator SYNON—And yet the tourism industry is still predicting considerable growth in the future.

Prof. Dixon—Yes, there will be considerable growth. Even on this 10 per cent number, growth in tourism is around the 10 per cent, so you are there talking about this package costing you a year's growth in tourism. That does not mean that growth is going to stop, but the path for tourist numbers instead of growing like that will be down a bit and then grow.

Senator SYNON—I would love to debate this because you said eight per cent before, not 10 per cent—

Prof. Dixon—No, no, no—

Senator SYNON—and you used an elasticity of three—

Prof. Dixon—No, no—

Senator SYNON—which you acknowledge possibly should have been negative two.

Prof. Dixon—No, three is my preferred number. In response to criticisms and so on, I tested the sensitivity of the results by moving that number to negative two, which moved the short-run loss of tourism from 13 per cent to 10 per cent. The eight that you have in mind is to do with job losses, but that is in, say, hotels or whatever.

Senator SYNON—That is what we are talking about, that is the terms of reference.

Prof. Dixon—Eight per cent job losses in hotels is going to be less than the loss of international tourism because there are plenty of other uses for hotels apart from international tourism.

Senator FERRIS—I want to extrapolate the discussion we had about Tasmania, if you can take your mind back 20 minutes. In an area like East Gippsland, and you talk about it in relation to a region, I wonder whether in the same way I asked you the question about net migration from Tasmania whether you are taking into account quite significant fluctuations of employment in an area such as East Gippsland?

I will give you some figures to help you with the answer, and there are only three of them here. In June 1998, unemployment rose by 105; in September 1998, unemployment rose by 79; and in December 1998, unemployment fell by 490. Given that the gas platform is in that area—and I imagine that you would have taken that into account as the platform is off Gippsland—I am wondering whether you take into account those variables when you do your estimations for regional analysis?

Prof. Dixon—When we do forecasts we take into account the sorts of things you are talking about to the extent that ABARE, for instance, can tell us what is happening to oil and gas production in Bass Strait relative to what is going on in Western Australia and so on. All of that is taken into account in forecasts, but it is not very relevant to the issue that we are talking about today because today we are talking about how different will employment be in East Gippsland because of the GST. The fact that Bass Strait—

Senator FERRIS—And the comments you made about resources.

Prof. Dixon—Yes. Bass Strait is finishing and the other part of the oil industry is booming. That is very relevant if you want to know what employment is going to be in the future in those areas. All we are saying here is that for East Gippsland—

Senator FERRIS—Under your central scenario you say 36 new jobs.

Prof. Dixon—We figure that there will be 36 new jobs in East Gippsland. Please read that as a tiny number. I would be thrilled if I was right, that there was fewer than 1,000 either way, or whatever it was. Thirty-six means a tiny number. We only ever put in these number of jobs because for some reason or other the public wants to know the numbers of jobs. The right number to look at is the percentage change. That is the other column. It says for East Gippsland the percentage change is plus 0.09 per cent. That says nothing; nothing is the right answer. It is a neutral outcome for East Gippsland.

Senator FERRIS—That is what I thought. It is very difficult to forecast when you get down to tiny numbers but I was just interested because that is an area that does seem to have quite wide fluctuations currently.

Prof. Dixon—Yes, but there is nothing about the industrial structure of East Gippsland that means it would be particularly favoured or unfavoured by the GST. That is what this says.

CHAIR—That is what the 36 says. Professor Dixon, I was on the flight that you were originally hoping to catch so, unfortunately, we do need to close the hearing. Thank you very much for coming today. If there is anything else you would like to contribute, particularly in relation to the elasticity of tourism, please forward that in writing to the secretary. Thank you very much.

Committee adjourned at 5.48 p.m.