

SUBMISSION TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
ECONOMICS

on

INQUIRY INTO THE *Income Tax Rates Amendment (Temporary Flood Reconstruction Levy)*
Bill 2011;

and the

Tax Laws Amendment (Temporary Flood Reconstruction Levy) Bill 2011

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At the outset the comment should be made that it is a sad reflection on the current state of affairs in Australia that the House of Representatives resolved – for whatever reason – to establish this inquiry.¹

In recent weeks, many Australians incurred massive emotional and financial strain as the forces of nature destroyed their homes, the infrastructure they rely on, and in a number of cases their means of employment. They desperately need assistance. That is beyond doubt. It is also beyond doubt that the levy is specifically designed to facilitate that assistance and to relieve some of the burden that would otherwise fall on those who are in no position to deal with it. That being the case, I ask myself, what is there to inquire in to. Surely nobody can object to this. Alas, it seems I'm wrong.

Various social commentators, media pundits and politicians like to speak of the egalitarian streak that runs through Australia. The notion of "mateship" is taken as a reflection of that egalitarianism. It is seen as something that is inherent in the Australian ethos. Whilst in many cases it is overstated and whilst it was a feature more found in the working class, it nevertheless is a theme that resonates across the country.

So, if this is a theme that resonates across the community, why is there opposition to the levy and thus why this inquiry?

One thing that is clear is that there is a partisan divide on the levy. The Government supports it; the Opposition opposes it.

I strongly support this levy. Indeed, I believe it does not go far enough. As mentioned above a significant number of Australians have had their lives turned on their head in a dramatic and tragic way. Homes have disappeared or been rendered unliveable. Livelihoods destroyed. Neighbourhoods, infrastructure (roads, rail etc.) and recreational facilities rendered unusable. The emotional attachment built through generations in the same location or contained in photo albums and objects of sentimental value, was blown away overnight. Nobody deserves this.

The immediate reaction from Australians from all walks of life was amazing and remarkable. Volunteers came out of the woodwork and money was generously donated. Perhaps egalitarianism was getting a second wind.

If it was, some were doing their best to ensure it wasn't catching.

¹ Whilst I have no objection to any inquiry into the notion of levies in circumstances such as the those being dealt with by the current Bills, it would be better to have any inquiry as a standalone investigation and at a time that invites less passion.

Not unexpectedly the Australian Government sounded out the notion of a temporary levy and shortly thereafter put a scheme on the table and now seeks to enact it in legislation. And let's face it – the levy is hardly extravagant. Low income earners are exempt as are those directly affected by the natural disasters. That in my view is an eminently sensible approach. For other individuals, I do not believe that an amount of up to a couple of hundred dollars over twelve months is beyond them. As comments have been made, it's equivalent to a cappuccino a week (an apt comparison in the inner suburbs of our major cities).

In my opinion if there is any criticism that can be made of the levy it is that it has too narrow a base. I do not understand why corporate Australia has not been required to make a contribution. At this time – profit reporting season – we are hearing of some very high profits being reported; indeed record profits. The recent announcements by BHP Billiton, Rio Tinto and Xstrata are a case in point. These companies have not only made massive profits but they will benefit financially from the reconstruction of infrastructure in Queensland. For example, many of the rail lines are used for hauling coal from the mine to the port. To the mining companies we can add the profits of the Big 4 Australian banks. The term “billions” comes into focus. Why should corporate Australia be exempt? It cannot be seriously argued that they share the same characteristics as low income earners or those affected by the natural disasters. And nobody can seriously argue that any contribution would not be spent on worthwhile things.

It seems to me that opposition to the levy is driven by a number of forces.

Opposition is being led by the Federal Liberal-National Opposition. Its ostensible position is that people who have already given generously and voluntarily should not be compelled to give more via a levy. The retort to questions about the source of funds is that they can be found through cuts to current budget programs.

The debate about the source of any funds needs to be put into the context of recent events in Australia. In 2008-09, as a result of the Global Financial Crisis (a crisis that had its gestation period during the life of the Howard Government), the Australian Government was compelled to initiate a fiscal and monetary stimulus to the economy. The stimulus was well received by most and was credited with saving Australia from the ravages of recession. The stimulus spending required the budget to go into deficit.

As Australia moved away from the Global Financial Crisis, the usual suspects – the Coalition, Corporate Australia, Murdoch Press and conservative think tanks and pundits – began to agitate to reduce the deficit in the federal budget. Consistently, of course, any reduction would be borne by those who could least afford it. Socially necessary expenditure or expenditure enhancing the role of government in the community or expenditure assisting a cause the usual suspects don't agree with or is contrary to their ideology are all lined up for

attack. On the other hand, revenue raising as a means of reducing the deficit is anathema to them – witness the \$22 plus million spent on opposing the mining tax (not to mention the pathetic attempt to make it look as though billionaires were being hard done by).

Then comes the natural disasters in Queensland. The reaction from the usual suspects is pretty much the same when it comes to the concept of a levy.

The Opposition opposes the levy and says that funds should come from cost cutting. When it decided to put up its own proposals for budget reductions it all went pear shaped.² Whilst much of their proposed cuts were not cuts at all but merely expenditure deferrals, an internal ruction broke out over cutting foreign aid to Indonesia.³ The poverty of the argument was given a boost when former federal treasurer, Peter Costello – who introduced at least 5 temporary levies during his time as federal treasurer – came out in opposition to the levy.⁴ This brought the notion of hypocrisy to the forefront of the debate.

Others, such as the Australian Chamber of Commerce and Industry argued - extraordinarily given its usual position – that instead of the levy, the Federal Government could extend the period of deficit budgets a bit longer.

But, based on experience, this argument, simply delays the inevitable from their perspective. This is not an argument about the economic wisdom of running budget deficits, in what circumstances, for how long and how budget funds should be raised and expended. The reality is that when it comes to reducing the deficit – now or in a couple of years – the same arguments as put above will be trotted out. Whichever way you look at it – today or tomorrow – from their perspective, the cost of reducing any budget deficit will be placed on those who can least afford it to foot the bill. Nothing changes.

So much for mateship!

In addition to this, there is the purely party political position. If there is no levy, the Federal Government will be compelled to either find the funds elsewhere or prolong the deficit budget. Either way it will become a source of opposition attack on the government; one gleefully fed by conservative pundits. Thus the Opposition has a political objective in opposing the levy. It will not be in the interests of most Australians, particularly those on the receiving end of budget cuts (namely those who are always on the receiving end of budget cuts) and those impacted by the natural disasters. But as they lack political clout, or can be bamboozled by the media, this doesn't matter. This position reminds me of the comment by the US Nobel Prize winning economist, Paul Krugman who, when addressing the role of the

² See Coorey P., "Abbott faces party criticism over levy position", SYDNEY MORNING HERALD, 7 February 2011, p.5

³ See Coorey P., "Abbott, Bishop spat over aid", SYDNEY MORNING HERALD, 10 February 2011, p.1

⁴ Costello P., "Flood tax a slap in the face for those who dug deep", SYDNEY MORNING HERALD, 3 February 2011, p.13

Republican Party in the US stated “The fact is that one of our two great political parties has made it clear it has no interest in making America governable, unless it’s doing the governing.”⁵ This was reinforced by another comment he made about Republican Party attacks on action being taken by the US Federal Reserve: “In short, their real fear is not that Fed actions might be harmful, it is that they might work.”⁶

Clearly “mateship” or egalitarianism comes a long way second in the Coalition’s lust for political power.⁷

It is a bit unclear to me what position is being adopted by the “independents”⁸ and the Green Party member. It is a worry that to reinforce their “independent” status, they seem to think that they have to offer some variation to the original proposition or procrastinate whilst they think about it. This may well be worthwhile at times – but in this case this is not one of them particularly if it leads to delay.

As noted above, if I have any criticism of this legislation, it is that corporate Australia has not been called upon to make its contribution to the levy. If to do so requires a simple amendment and will not prolong the time when the levy begins to have a practical effect on the ground, then such an amendment should be made. My concern is that, given the traditional attitude of corporate Australia to having to make payments to government and the position of the Opposition, any change at this time will become an excuse to prolong the debate. As I read it, the sooner the money hits the ground the better.

This is not to say that I think corporate Australia should be excused from paying. **I would recommend that additional legislation be enacted to cover corporate Australia in the event that an amendment to this legislation is not practical.**

In conclusion, as far as I am concerned, we have a moral and human responsibility to assist those who need it. And undoubtedly they need it. Human beings are social beings – we live in groups, we need one another for life and nurture.⁹ And we are more than that – we have something called the capacity to think and a level of intelligence that goes with it. True it doesn’t always work all that well, but we can and do get it right from time to time. Let’s make this time one of them.

⁵ Krugman P., “There Will Be Blood” NEW YORK TIMES, November 22, 2010

⁶ Krugman P., “Axis of Depression”, NEW YORK TIMES, November 18, 2010

⁷ This lust received a further boost in the last week or so when the Opposition Immigration Spokesperson Scott Morrison tried – unsuccessfully – to make political mileage over a decision by the Australian Government to pay for a number of asylum seekers to travel from Christmas Island to Sydney to attend the funeral of their relatives. See Hatcher P., “Ugly game of race baiting” SYDNEY MORNING HERALD, News Review, Weekend Edition, February 19-20, 2011, p.9

⁸ By “independent” I mean independent of any political party. This is very different from being independent of any prevailing political ideology.

⁹ Even Margaret Thatcher drew the line on the role of individualism. When making her famous statement that there is no such thing as society, only individuals, she added the words “and families”. Clearly a concession to the collective nature of human beings.

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