THE VERDICT

Coalition rejects secret GST paper

By PAUL CLEARY
Economics Correspondent

The Treasurer, Mr Costello, said yesterday he accepted the "most accurate" measure of the impact of the GST on households was one that assumed everyone had the same spending pattern.

Mr Costello reaffirmed Treasury's approach to compensation in the tax package and lashed out at a report in yesterday's *Herald* which said a secret Treasury paper admitted there was more work to be done on assessing the impact of the package on different households.

The Treasurer denied the paper was secret, even though it surfaced only after being requested under the Freedom of Information Act.

He said the *Herald* report was wrong and its conclusions about the Treasury paper "completely inaccurate".

The *Herald's* FOI search also revealed that Treasury conducted a detailed assessment of the tax package on the basis of the Household Expenditure Survey (HES). It now says this is an unreliable guide to the impact of the GST and has refused to release the results of this analysis. A similar study by the Melbourne Institute, based on the HES, found low-income earners required between two to five times the amount of compensation for the GST than the figures in the tax package.

Treasury relied on the HES in 1985, overcoming some of its technical shortcomings; and so did the Coalition in its 1991 Fightback package.

In the 1998 tax package, however, Treasury took a different approach.

It assessed the GST on the basis of a "common price impact" of 1.9 per cent. This assumes, wrongly, that high-, middle- and low-income earners have uniform saving and spending patterns.

The Treasury paper, written by Dr Michael Carnahan, who worked on the tax package, also admits "different people do indeed buy different things", and that there "are arguments" in favour of assessing the impact of the GST for individual household types.

Mr Costello said the Treasury paper did not say that more work needed to be done to analyse the impact of the tax package (which the article claimed), and that the article supported the view that the HES should be used as a basis for assessing the impact of the tax package (which it did not).

A key point of difference is the interpretation of the final two sentences in the 18-page paper.

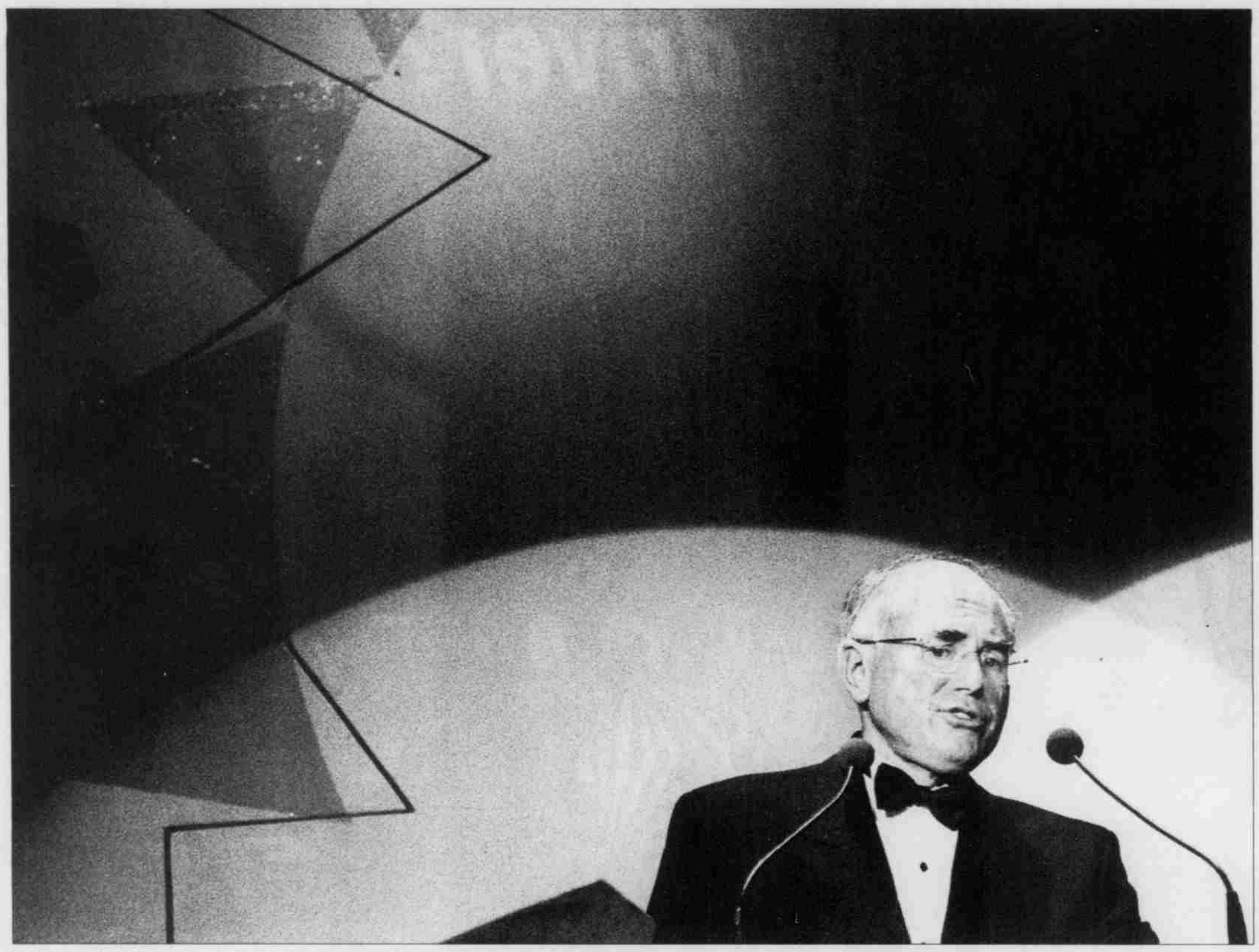
While Treasury rejects the HES as a tool for assessing the impact of tax changes on households, it suggests more research would produce a better understanding of the impact of the Government's tax package and future reform.

"That said, there is considerable scope for additional research leading to the gathering of better data," the paper says.

"Such research would make a far greater contribution to the understanding of the distributional impact of *current* and future reform proposals than analysis based on the misuse of HES data." (Emphasis added.)

Addressing a business dinner in Sydney last night, the Prime Minister pledged to press ahead with his tax reform agenda.

The *Herald* yesterday sent a series of questions to Mr Howard about the Treasury paper. The newspaper received a single-sentence reply: "The Treasurer has responded to this issue and we have no further comment at this stage." (See panel at right.)



Mr Howard addresses an Australian Business dinner at Darling Harbour last night, where he vowed to press ahead with tax reform. Photo by JACKY GHOSSEIN

THE HERALD'S QUESTIONS TO MR HOWARD

■ Do you accept that the high-, middle- and low-income earners have different saving and spending patterns, as suggested by the Household Expenditure Survey, such that the bottom 20 per cent spends twice as much on food in relative terms as the top quintile?

■ Do you believe these differences should be taken into account in compensating low-income earners for the cost of the goods and services tax?

■ The undated paper by Dr Michael Carnahan says "there is considerable scope for additional research leading to the gathering of better data", and that this would improve the "understanding of the distributional impact of current and future reform proposals". Do you accept there is a need for further work to be done by Treasury?

■ Are you convinced that Treasury went far enough to ensure that the compensation measures in the tax package are sufficiently robust, given that the tax package's 1.9 per cent CPI impact rests on the assumption that all households have a uniform spending and saving pattern?

■ In the 1985 Draft White Paper the Treasury incorporated different spending and saving patterns into its compensation model (as did Fightback). This was done to ensure that some households are "not disadvantaged because they dissave or because they consume relatively more heavily those goods that would be subject to increased taxation under a consumption tax". Do you believe Treasury should have made the same attempt to overcome the problems with the HES, and indeed develop a "hybrid" model for your tax package?

■ Was the decision not to undertake further analysis of the compensation measures – along the lines of the Draft White Paper discussed above – made by the Government or Treasury?

■ Did Treasury pass on to Government the conclusion in Dr Carnahan's paper that there was "considerable scope for additional research", prior to the release of the tax package?

THE ANSWER

■ The Treasurer has responded to this issue and we have no further comment to make at this stage.

Your tax cuts at risk, warns Costello

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confirming that in December the Government would produce new forecasts for next financial year which would reflect the worsening world economy.

"Whilst we have such uncertainty hanging over the Japanese financial system, we are going to have volatility in financial markets and that will have an effect on Australia as well," he said.

The Howard Government is likely to adopt a growth estimate more realistic than the 3.5 per cent "projection" for 1999-2000, which underpinned its tax package during the election campaign. The current forecast for this financial year is 2.75 per cent and most private analysts predict lower rates for next year.

Last week, the International Monetary Fund predicted growth for Australia in 1999 of 2 per cent, prompting Mr Costello to attack its track record.

Although the Australian dollar is expected to remain weak, market analysts say the case for the Reserve Bank to cut interest rates is growing.

In a speech to business economists in Washington, Dr Greenspan said the outlook for the US economy had "weakened measurably". He predicted a weaker world economy and confessed to having no idea about when the downturn would end.

It was "extremely important" for the world economy to have a workable rescue package for Japan's insolvent institutions.

Mr Costello welcomed the steps in Japan, where the ruling party vowed to swiftly pass reform bills to restructure its ailing financial system. It will prop up weak banks with taxpayers' money.

Last night, Mr Howard sought to inject an optimistic appraisal of Australia's and the world's economic futures. He said the language of pessimism and recession were inappropriate.

On tax reform, he hoped other premiers would offer the same support as Mr Carr. "There's been a lot of debate about our mandate ... it is our intention to press ahead with all the resources at our disposal to implement the program on which we were elected."

Rug may be pulled from the Davids

By GREG ROBERTS

Recriminations are mounting within One Nation over Ms Pauline Hanson's failure to win the seat of Blair, with moves afoot to expel key party figures Mr David Oldfield and Mr David Ettridge.

Supporters of Mr Oldfield, Ms Hanson's former adviser, and Mr Ettridge, the party's national director, counter that Ms Hanson was directly responsible for the most serious gaffes of her election campaign.

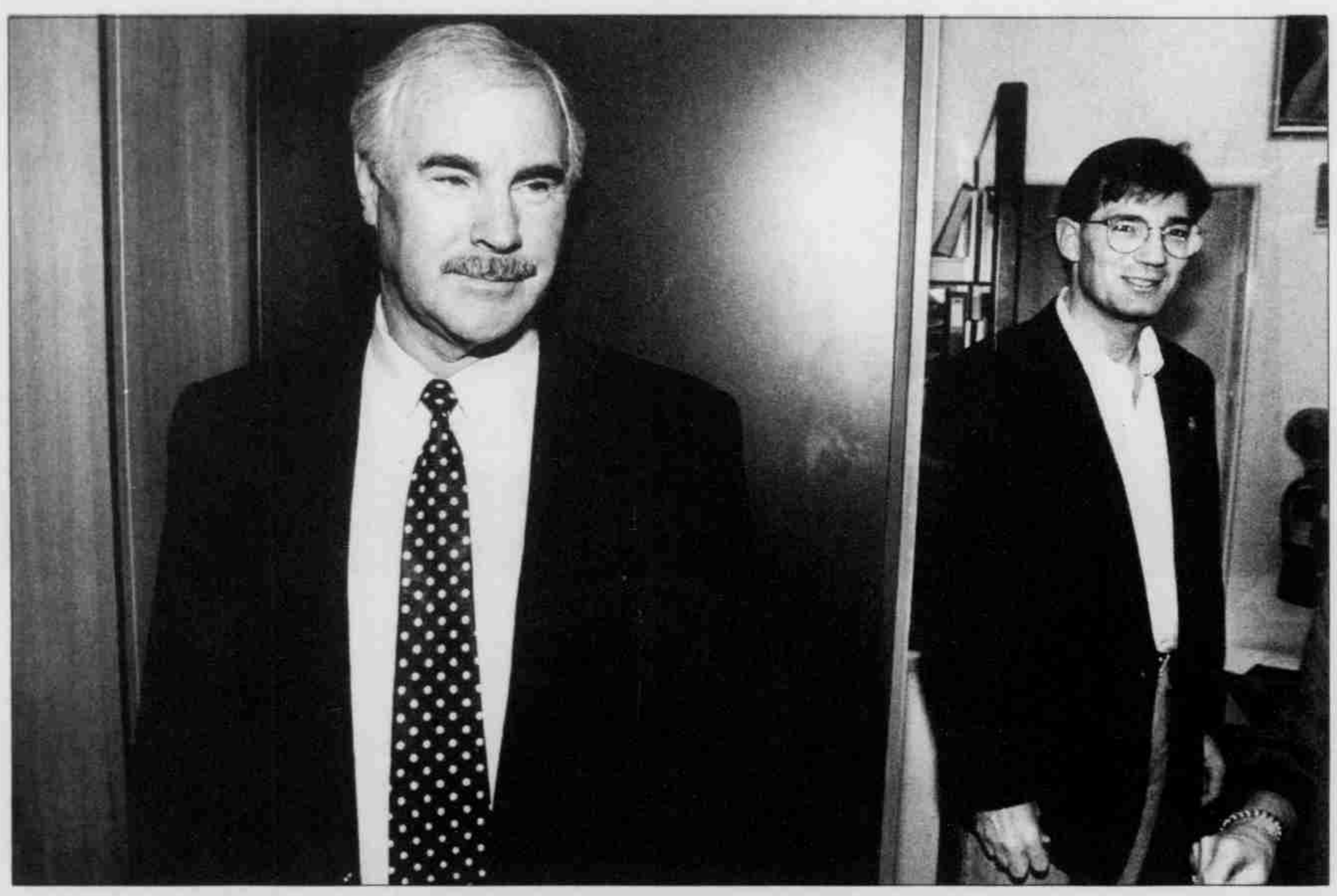
Ms Hanson insisted on One Nation accepting the discredited 2 per cent Easytax policy, for instance, and on making her controversial "mother of the nation" speech.

> **There's been no talk of him actually having a job [with One Nation] and I really don't know what his plans are or what he's going to do.**
>
> MS PAULINE HANSON
> Commenting on Mr Oldfield

One Nation members plan to formally move at the party's annual general meeting next month for the removal of Mr Oldfield and Mr Ettridge as party directors.

They will also seek the establishment of an elected 20-person national council to replace Pauline Hanson's One Nation Ltd, the company which constitutes the party and has Ms Hanson, Mr Oldfield and Mr Ettridge as its sole directors.

Speculation about Mr Oldfield's future was also fuelled by comments made by Ms Hanson to *The Gold Coast Bulletin*. "There's been no talk of him actually having a job [with One Nation] and I really don't know what his plans are or what he's going to do," Ms Hanson told the newspaper.



Under fire . . . but Mr Ettridge and Mr Oldfield refused to accept blame for One Nation's defeat. Photograph by GREG WHITE

At the same time, the founder of the Pauline Hanson Support Movement, Mr Bruce Whiteside, has written to the Australian Electoral Commission asking it to withhold $3 million in electoral funding to One Nation pending an investigation into the party's structure.

And the Criminal Justice Commission is investigating a complaint that One Nation's Queensland parliamentary leader, Mr Bill Feldman, a former policeman, obtained confidential police records from his former colleagues about a fellow One Nation MP, Mr Charles Rappolt, and a former party staffer, Ms Debbie Beaven.

Mr Feldman denied he sought the records but admitted he approached NSW police for information about a NSW Aboriginal group.

One Nation's candidate for the Federal seat of Brisbane, Mr Sam Tornatore, said Mr Oldfield should "accept full blame" for Ms Hanson's failed campaign and be "kicked out".

Mr Tornatore said Mr Oldfield's "stupid" decision to call police to evict journalists from the party's campaign launch cost One Nation many votes.

He said there was a need to reform the party structure to make it more democratic.

"We are not happy with the way things are and changes need to be made."

Mr Oldfield hit back by branding Mr Tornatore's comments as "stupid and ignorant".

"It is the Queensland campaign committee that directed everything that happened up there," Mr Oldfield said. He denied the party lost votes over the campaign launch incident.

Mr Oldfield said his relations with Ms Hanson were sound and he would be discussing his future with her next week, although he expected to play a role in the NSW election campaign.

Mr Ettridge said he expected moves against him and Mr Oldfield but there was no need to reform the party structure.

"This is just a little bunch of malcontents thinking 'Here's another opportunity to have a go at these people who've led the party to electoral successes.'"

"There won't be changes if it means putting the party in the hands of idiots."