

Is Scott Morrison getting ahead of Malcolm Turnbull in the GST debate?

Written by The Conversation

Scott Morrison has become a true believer in the cause of raising the GST, determined to drive a major switch in the tax mix. The big question is whether Malcolm Turnbull will end up in the same place as his treasurer.

Turnbull is keeping his options open. "Changes to the GST are certainly part of the tax debate and certainly being actively considered by the government," he said on Friday.

If Turnbull agrees with Morrison, all will be well and good between them.

On the other hand if Turnbull eventually opts for caution and doesn't walk down the GST road, or in the shorter term feels Morrison is getting ahead of the game, that would be awkward for the gung-ho minister, who would then need to manage his retreat.

Morrison wants a high profile and he seeks the limelight. But that carries risks.

There is always that salutary tale from Labor days. Paul Keating was passionate about introducing a broad-based consumption tax. Bob Hawke let him have his head. But eventually the prime minister pragmatically pulled the rug out from under his treasurer. It wasn't pretty.

On Monday Morrison made some comments that have raised eyebrows.

Asked at a news conference whether he was disheartened by Newspoll's finding that 54% oppose a GST rise to 15%, Morrison said: "I have had a bit of experience with this. I remember before the 2013 election turn-backs actually had lower levels of support in the Australian community. It's important that when you believe that something's right for the country, that you remain focused on that." He also made the point about the unpopularity of turn-backs in his radio spot with Ray Hadley.

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The comparison is a strange and unlikely one. Some Coalition marginal seat-holders might find it rather alarming.

The popularity or unpopularity of the turn-back policy was of little relevance. The public wanted boats and drownings stopped. Centrally, the ordinary person was not going to be affected by turn-backs – in contrast, everyone knows they would be affected by a GST rise to finance income tax cuts.

Compared with selling a hike in the GST, turning back the boats was a doddle.

The other notable thing Morrison said was about economic modelling.

When tax changes are proposed, Treasury modelling is a key feature for ministers drawing up policy. The government says it wants tax reform to promote growth and jobs. So the officials model the effects of various proposals. The exercise is imperfect, and much depends on the assumptions fed in. Still, it is the best way of getting an estimate of the benefits or costs of change.

Yet Morrison was sceptical about modelling when he was asked, in the context of recent modelling commissioned by the Finance Services Council, about the relative economic merits of a company tax cut versus a personal income tax cut. The modelling highlighted the benefits of a company tax cut in creating jobs, while Morrison concentrates on talking about income tax cuts to counter bracket creep.

Morrison said: “The sad thing about economic models for those who run them is that they’re not perfect and they can’t predict the future and they’re limited by the assumptions they make, and that in particular is an issue with some of the models that really don’t take account of the real boost that personal income tax gives for small businesses who are unincorporated.”

Regardless of the limitations, the government will have to be guided by modelling. Would it gamble on a radical package if the modelling cast doubt on what it would do for growth and jobs?

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And when the government's blueprint is announced, the modelling on which it is based should be available if the plan is to have maximum credibility.

While some of Morrison's comments are raising questions, NSW Liberal Premier Mike Baird and South Australian Labor Premier Jay Weatherill continue to be impressive performers on this messy tax reform field.

Baird on Monday produced a compromise plan which, unlike his initial proposal, would give the Commonwealth most of the extra revenue from a 15% GST, at least up to a review in 2020. Only a modest total of A\$7 billion would go the states to help with health and education spending.

But Morrison continues to take the hard line that the Commonwealth would not have any of the extra GST money used for spending – when surely eventually there would need to be some give-and-take by the government.

Weatherill prefers a package that, while involving a GST increase, would give the states access to a slice of income tax, which has a faster rate of growth than the GST.

Weatherill has called out federal Labor for not facing up to the revenue problem; he says the savings it has identified (many of them tax rises) won't be enough to cover the massive extra spending that will be needed particularly in health. His stands on both the GST and Labor savings have drawn angry responses from his own side.

The tension between federal Labor and Weatherill is on public display and difficult for Bill Shorten. The story of the evolving relationship between Morrison and Turnbull is unfolding behind the scenes, with its outcome critical but unpredictable.

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