



# Australian Adam Smith Club (Melbourne)

President: Michael James, Editor: Regina Bron, P.O. Box 449, Heidelberg, 3084

*Of all debts, men are least willing to pay taxes. What a satire is this on government! R. W. Emerson (1841)*

## Angela Ryan

on

### “The Tax Package: Genuine Reform or Just a Hidden Tax Increase?”

**The Adam Smith Club will host a dinner meeting on Tuesday 27<sup>th</sup> of July 1999, at the CENTRA Hotel, corner St Kilda Road and Park Street, South Melbourne.**

The federal government’s tax package, now passed into law, extends the indirect tax system to services and reduces income-tax rates. But is it genuine reform? What should happen now with business taxes? And can there be genuine tax reform without a reduction in the tax burden?

Angela Ryan is the National Director of Taxation for the Australian Society of Certified Practising Accountants and a well-known media commentator in the tax reform debate. She also represents the ASCPA on the Business Coalition for Tax Reform, the Small Business Consultative Committee and the CCH GST Editorial Board. She was the Chief Adviser to the Assistant Treasurer, Rod Kemp, and was Section Head, Taxation and Superannuation Policy Section, in the Department of Prime Minister and Cabinet. Angela also worked for a number of years in the Taxation Policy Division in the Australian Treasury.

Attendance is open to both members and non-members. Those desiring to attend should complete the attached slip and return it to the Club no later than Friday the 23rd day of July 1999. Tickets will not be sent. Those attending should arrive at 6.30pm for dinner at 7.00pm. The cost is \$40.00 per head for members and \$45.00 per head for non-members, inclusive of wine and pre-dinner drinks.

**Enquiries to Ms Regina Bron, tel 9859 8277 (AH)  
or Dr Tom Jellinek, tel 9706 7400 (BH)**

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The Secretary,  
Australian Adam Smith Club (Melbourne),  
PO Box 449, Heidelberg Vic 3084.

Please reserve ..... place(s) at \$40.00 dollars per member and .....place(s) at \$45.00 per non-member for the July 27<sup>th</sup> dinner of the Australian Adam Smith Club. I enclose the amount of \$..... in payment for the same.

NAME (please print): .....

ADDRESS: .....

SIGNATURE: ..... TEL: .....

## LAISSEZ FAIRE ON THE WEB

This newsletter can be found on the World Wide Web at <http://www.newaus.com.au/asmith.html>. We are grateful to Gerard Jackson who produces the *New Australian* - Australia's only free market online magazine - for hosting our newsletter. The *New Australian* is recommended to anyone interested in obtaining a 'free market' view of the economic events and in exposing mainstream journalist hypocrisy and mendacity. A new issue appears approximately every week and there is a truly amazing amount of free market material collected there. There are also links to other interesting Web sites both in Australia and overseas.

## BARLEY (ALMOST) FREE

Another step was taken on 1<sup>st</sup> July towards unshackling the economy. The domestic trade in barley was deregulated, although 'single desk' export selling remains in force.

The small reform led me to reflect on how far Australia has moved away from protectionist restrictions upon both international trade and the domestic economy since I arrived as a fresh faced young migrant. Soon after my arrival, I asked Prime Minister Holt at a public meeting, "You have just imposed a 60% duty on synthetic rubber. What is the point of making something in Australia at all if it can only be sold for 160% of what it is worth?" He answered on the conventional lines that this kind of policy was necessary to keep all the population employed. Nowadays, of course, it is the *question* that is of interest; it vividly illustrates the coddled environment in which industry once operated.

Those were the days of the Margarine Acts, when a production quota for table margarine was set in every

state for the benefit of the dairy farmers. Liquor retailing, baking, bank lending, bank borrowing, retail opening hours and Sunday trading were all tightly regulated to inconvenience consumers and buy the good will (and votes) of the suppliers and their unionized work force.

Everybody, even in the Liberal Party, seemed then to accept this over-regulation. I felt I was the only devotee of Adam Smith in all Australia until, joy of joys, I came across an article by 'A Modest Member of Parliament' in the *Financial Review*!

The 'Modest Member' was later revealed to be Bert Kelly, who came to exercise a remarkable influence on the thinking politicians of all parties. He exercised the influence as a mere backbencher, but the torch he lit has been picked up in one form or another by Whitlam, Hayden, Hawke, Keating, Kerin, Button, Howard, Hewson, Reith and Costello. Australia is a far freer and more prosperous place as a result. *JC*

## THE GST COMETH

And so after much toing and froing, our political masters have decided we are going to have a GST after all. Almost certainly we will live to regret it. The GST has been proclaimed to be revenue neutral, but at best, revenue neutral is a static concept and we do not live in a static world. Even if the tax was revenue neutral on day one, it will very quickly cease to be so with the passage of time. As some leading politicians in their more frank and less guarded moments have been prepared to concede, the real purpose of the GST is to raise more tax.

It is illuminating to see just who supported the introduction of a GST and why. Two major supporters, who formed what some might see as an unholy alliance, were Big

Business and the welfare sectors. The latter was concerned to see government raise the additional taxes in order to ensure continued, if not increased, funding. The former benefits in a number of ways: the abolition of a number of small taxes will particularly help exporters since the GST will not be payable on exported goods and services, increasing their competitiveness on world markets. However, the real benefit will flow from the ability of big business to absorb the overhead costs involved, compared to their numerous small business competitors, on whom the administrative burden will be severe.

As a group, politicians and bureaucrats also favoured a GST. For one thing, their incomes depend

on government revenue being both large and growing, as does the amount of patronage they are able to dispense. Admittedly, the Labor Party opposed it, but their opposition was always more apparent than real - opposition did offer them some hope, at the last election, of an upset win. They will not, however, repeal it.

The GST is being introduced at 10%. Almost every other country with a GST has raised it shortly after its introduction. Australia is likely to follow suite. The exception has been Denmark, but they introduced it at 25%! Political promises not to increase the tax are poor comfort. The GST is a vehicle for an almost unlimited increase in the tax take. Resisting the temptation is going to be hard for any government. *DS*

# Laissez Faire

Newsletter of the Australian Adam Smith Club (Melbourne), No 48, July 1999



## CORAL OR MORAL BLEACHING?

July 6 saw the international launch of a report "Climate Change, Coral Bleaching and the Future of the World's Coral Reefs" by Professor Ove Hoegh-Guldberg, director of the University of Sydney's Coral Reef Research Institute. The conclusion of this report is that global warming, caused by increasing levels of greenhouse gases, will according to climate model projections, lead to global destruction of coral reefs through large scale coral bleaching. The launch of this report received very wide coverage in the media, especially the ABC, on the day. An article in the Sydney Morning Herald by Murray Hogarth on July 7 would appear to be typical of the unquestioning regurgitation of anything appearing under Greenpeace's imprimatur.

Unfortunately I have been unable to obtain a copy of the report. However, studying the newspaper article, together with an 'article' on the Greenpeace Australia web site would lead any person with a half-critical bent to seriously question the conclusion of the report, which is being used by Greenies to place political pressure on governments world-wide to reduce greenhouse gas emissions.

The salient points in Professor Hoegh-Guldberg's argument would appear to be the following:

- Coral bleaching has been studied scientifically since 1979 and a definite correlation exists between increased ocean temperatures and coral bleaching. For example 1998 was the hottest year on record and corresponds to the largest measured occurrences of coral bleaching.
- Climate models supposedly predict atmospheric temperature increases due to increased levels of greenhouse gases. Although not stated anywhere in the articles, there must be some correlation between atmospheric temperatures and ocean temperatures such that if atmospheric temperatures increase so does ocean temperatures. What the sensitivity of relationship is I do not know. That is, does a 1°C increase in temperature lead to a .1°C or 10°C increase in ocean temperature?
- If ocean temperatures rise above a certain level, coral reefs will not recover from repeated bleaching episodes and eventually die out completely.
- A consensus of scientific opinion expects an increase in atmospheric temperatures of between 1.5°C and 3.5°C by 2100.

Twenty years study of coral bleaching is a very short time to base projections upon. Climate changes must be studied over periods of hundreds of years in order determine relationships. For all we know coral bleaching may have been far more common in the past when the Earth was warmer. Yet we still have coral today.

The climate models used to predict global warming are highly suspect. (As the models are refined year by year, the projected temperature increases have been reduced. At the current rate of model refinement, I would not be surprised if within a few years these models will show no or an insignificant temperature increase from greenhouse gas increases.)

The best results we have studying actual atmospheric temperatures globally coincidentally began in 1979 and are measurements taken by satellites. These results project a global increase in temperature of only 0.5°C per century. (A twenty year measurement period is too short to make accurate predictions. These predictions are too sensitive to beginning and end points in the data series and the overall variation in temperature over the twenty years mean that the results are consistent with no real increase in global temperatures for the period of measurement.) A measured increase in global temperatures does not prove it caused by increased greenhouse gas emissions. Indeed the latest research done on polar ice core samples indicates that increased levels of carbon dioxide (the major greenhouse gas) in the atmosphere tend to lag by several hundred years increases in atmospheric temperatures. This is an extremely important result as it shows that increases in atmospheric greenhouse gases could not have caused increases in global temperatures. The results tend to suggest that if there is a causal relationship between atmospheric carbon dioxide and global temperatures it is that temperature increases cause increases in atmospheric carbon dioxide.

The implications of this is catastrophic for the greenies as it indicates that no amount of reduction of greenhouses gases in the atmosphere will have any effect on global warming which is caused by something else. (There is growing evidence that all the temperature variations in the Earth's atmosphere can be attributed to changes in solar activity. Needless to say none of this is reported in the mainstream media.) If increasing ocean temperatures spell doom for the Earth's coral reefs, it won't be due to increased greenhouse gas emissions. To dishonestly use this as a lever to lower our standards of living through greenhouse gas emission reductions is scientifically unsustainable. Don't journalists have any investigative instincts left? Or do they sacrifice their integrity on the alter of political expediency? *MG*

## LEGAL AID THE RIGHT WAY

In the legalistic and regulated societies of the late 20<sup>th</sup> Century Australia and most Western nations, the availability of legal representation, if desired, for all defendants in criminal proceedings, is a necessity. There is a general consensus that no one, regardless of ability to pay, should be subject to criminal sanctions without at least some prior assistance from a lawyer. There is also a widely held view that a similar position should exist in civil proceedings, or at least those civil proceedings which are of fundamental importance to the individual concerned and which are not really matters of choice. Examples include divorce, custody and maintenance disputes and cases where someone's home or livelihood is under threat.

Given such general acceptance it is clear that some means of providing legal assistance is required. It is far from clear however that such assistance should, as is now the case in Australia, be state funded.

Australia is a leader in state funded legal aid. Recent cuts in such aid have provoked much criticism, not only from lawyers but also from various community groups such as the Salvation Army. Prior to the introduction of state funding, legal aid was provided by legal associations and individual

lawyers as a professional duty or a community service. Much good work was done, reasonably effectively and efficiently. It is doubtful that the introduction of state funding has made the provision of legal aid more efficient, effective or just. Whereas previously all lawyers might have felt constrained or morally obliged to do a certain number of pro bono cases, the tendency now is to regard the area of legal aid work as just another jurisdiction in which a lawyer might or might not practice. There are other drawbacks. To have some litigants receive aid from the public purse leads to a clamour for more and more areas of litigation to be open to it, and that all citizens should receive such aid regardless of means. To allow this would be economically unsustainable. Moreover providing state funds to litigants is, in effect, a subsidy to the litigation industry, giving rise to the old lawyer joke of looking for a litigation-led recovery. It is not self-evident that increased litigation produces a more just or more equal society, much less a better one. What state funding does do is eliminate or make more difficult or less likely the provision of private alternatives. Insurance is one such possibility but there are others. It is time to think seriously of privatizing legal aid. DHS

## FREDERIC BASTIAT ON TAXATION

As one would expect, the 19<sup>th</sup>-century French political economist Frederic Bastiat made some wry and shrewd comments about taxation. In his 1850 pamphlet *What Is Seen and What Is Not Seen*, he stressed the need to take into account the invisible (or opportunity) costs of taxes as well as the visible benefits:

'The advantages that government officials enjoy in drawing their salaries is *what is seen*. The benefits that result for their suppliers is *what is seen*. They are right under your nose.

'But the disadvantage that the taxpayers try to free themselves is *what is not seen*, and the distress that results from it for the merchants who supply them is *something further that is not seen*, although it should stand out plainly enough to be seen intellectually.

'When a government official spends on his own behalf one hundred sous or more, this implies that a taxpayer spends on his own behalf one hundred sous the less. But the spending of the government official is *seen*, because it is done; while that of the taxpayer is *not seen*, because — alas! — he is prevented from doing it.

'You compare the nation to a parched piece of land and the tax to a life-giving rain. So be it. But you should also ask yourself where this rain comes from, and whether it is not precisely the tax that draws the moisture from the soil and dries it up.

'You should ask yourself further whether the soil receives more of this precious water from the rain than it loses by the evaporation . . .

'Good Lord! What a lot of trouble to prove in political economy that two and two make four; and if you succeed in doing so, people cry, "It is so clear that it is boring". Then they vote as if you had never proved anything at all . . .

'Money creates an illusion for us. To ask for co-operation, in the form of money, from all the citizens in a common enterprise is, in reality, to ask of them actual physical co-operation, for each one of them procures for himself by his labour the amount he is taxed. Now, if we were to gather together all the citizens and exact their services from them in order to have a piece of work performed that is useful to all, this would be understandable; their recompense would consist in the result of the work itself. But if, after being brought together, they were forced to build roads on which no one would travel, or palaces that no one would live in, all under the pretext of providing work for them, it would seem absurd, and they would certainly be justified in objecting: We will have none of that kind of work. We would rather work for ourselves.

'Having the citizens contribute money, and not labour, changes nothing in the general results. But if labour were contributed, the loss would be shared by everyone. Where money is contributed, those whom the state keeps busy escape their share of the loss, while adding much more to that which their compatriots already have to suffer.' *MJ*