A Public Policy Case Study of the Introduction of the Goods and Services Tax (GST) in Australia, some comparisons with Canada

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Abstract

Traditionally the goal of policy makers has been rational policy-making. Evidence however indicates that public policy decisions inevitably involve political considerations and influences from various community interest groups. The introduction of the Goods and Services Tax (GST) in Australia is examined in this paper. In this analysis three landmarks in the policy process are used to demonstrate that rationality re-emerged with each attempt at policy formulation and introducing the GST. A long policy process of 30 years for the introduction of the GST shows that a longitudinal case study of the policy process remaining purely rational is nearly impossible. The research findings demonstrate the iterative nature of the GST as a public policy and the policy process oscillated from the rational comprehensive approach to an incremental approach then back again. The GST experience in Australia shows that tax reform can be successfully achieved. Lessons can be learnt for future change to Australia's tax and transfer system.

Introduction

Policy makers have traditionally had a goal of rational policy however evidence and experience shows that public policies and their development include political influences such as from interest groups. This paper examines the introduction of the GST in Australia with some comparisons with Canada. This paper presents the results of a longitudinal case study of the introduction of the goods and services tax (GST) in Australia (Alvey 2014) and aims to determine whether there are key lessons regarding the policy *process*, particularly in the role of policy instruments in generating the necessary support for what was considered an unpopular policy (Alvey 2010; 2015; 2015). Australia and Canada are compared in a general sense and then their tax similarities and differences. Next the political issues such as a clash of mandates and structural problem for Canadian politics are mentioned. The GST in Canada is briefly covered followed by the GST landmarks in Australia. In outlining the journey of the GST policy, a more detailed analysis is applied to the GST policy that utilizes a range of models of analysis including (a) political systems theory and policy stages approach model; (b) rational and incremental processes; and (c) the influence of policy networks, advocacy coalitions.

The aim of the paper is to gain a clearer insight into the nature of public policy making through this case study, and also to test the robustness of the theories of public policy process. The theme of the possibility of rationality in policy making, which dominates the public policy literature, is the key focus adopted here in an effort to describe and assess the nature of the journey of the GST. The GST is a particularly interesting case study to review because of the considerable number of public policy processes it traveled through before being finally implemented, in Australia covering a period of some thirty years. The lessons learnt from tax reform and the GST policy process are outlined and finally the findings from the research are presented.

Australia and Canada compared

Australia and Canada are similar in the sense of a east west divide, geography, bulk of population live in the south/east part of the country. Both Australia and Canada are former far flung British colonies that today are federal states with constitutional monarchies. In 1867 Britain's 3 colonies became Canada's first 4 provinces in the Federal Dominion of Canada while 34 years later 6 of Britain's colonies joined the Federation of Australia. Australia's seven states/territories (WA, Vic, Qld, NSW, Tas, SA & Territory: NT) compare to Canada's 10 provinces (Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec, and Saskatchewan). Canada's 35.2m population is larger than Australia's 23.1m but both are spread across massive, largely uninhabited continents. Both are open economies favouring free trade with strong economic ties to the USA and the rest of the world. Both are economically reliant on mining. The IMF ranks Canada's economy 12th largest by GDP, followed by Australia at 13th. While there are many similarities between Australia and Canada trade between the two is low, with Canada only ranking as Australia's 22nd largest trading partner. The combined impact of manufacturing, mining and agriculture is similar for both (21.5% for Australia; 21.8% for Canada), Australia is more reliant on mining and Canada is more reliant on manufacturing (Mackay 2019).

Australia and Canada are different in the sense of the powers of states and provinces, and sovereignty. The stark difference can be seen in the names Canada the 'Great white north' and Australia the 'Great south land'. Unlike Australia, Canada has sizeable exports of machinery, equipment and cars. Reflecting its geography, Canada has much closer ties with the US – which absorbs around three-quarters of Canada's merchandise exports (a quarter of Canada's GDP). Australia's export destinations are more diverse and more oriented to Asia (China & Korea account for more than 20% of Australian merchandise exports and Japan accounts for another 20%) (Mackay 2019).

Australia and Canada - tax similarities and differences

In Australia taxation is a concurrent power under s.51(ii)[1] in the Constitution of Australia. Concurrent powers are powers that can be exercised by both the states and the Commonwealth (Federal) Government (such as income tax). Residual powers are reserved for the states (such as state taxes such as Stamp Duty, Land Tax and Payroll Tax) Exclusive powers are reallocated to the Commonwealth Government (such as customs and excise).

Australia and Canada started the same way in regard to taxation. The Canadian provinces shared the income tax bases with the Federal Government and were able to

[1] The *Australian Constitution* (1901) gives the Commonwealth power to impose taxation under s. 51(ii) provides: "The Parliament shall, subject to this Constitution, have power to make laws for the peace, order and good government of the Commonwealth with respect to: Taxation: but so as not to discriminate between the states or parts of states".

introduce legislation imposing sales taxes. As in Australia, during WWII, the provinces vacated the income taxing field in favour of the Federal Government. However, whereas the Commonwealth has failed to restore access to this tax base to the states, the Canadian Government allowed the provinces to resume income and corporate taxes in 1957. Unlike Canadian provinces Australian states no longer levy income tax. In Canada most provinces currently set their own marginal income and corporate tax rates and have these taxes raised on their behalf by the Federal Government, although a number of provinces impose their own taxes. The Federal Government in Canada has provided tax room by reducing its call on the income tax base. After WWII in Australia it is the case that all the states can take back the tax power but the Commonwealth and states tax power needs to be uniform (Wiltshire 1986: 93). After the introduction of the GST in Australia the states became dependent on the GST revenue however recently the GST revenue for the states has now slowed down.

Australia and Canada tax systems

In Australia, at the time of federation in 1901 there were no income taxes, the main colonial revenue measures were customs and excise duties, and to a lesser extent land taxes. Customs and excise would have to be national taxes the Australian Founders realized that this would leave the states with a revenue deficit therefore arrangements were made in the constitutional design for transfers of this revenue (originally three-quarters of it) from the national government to the state governments. This was the beginning of Vertical Fiscal Imbalance (VFI) in the Australian federation.[2] Also, recognizing that particular states might experience difficulties from time to time through differing capacities to raise revenue and deliver services – Horizontal Fiscal Imbalance (HFI) – the Australian Founders included section 96 to the *Australian Constitution* to allow national grants to pass to the states 'on such terms and conditions as the Parliament thinks fit'. This of course involves conditional funding, although the Founders considered that it would only be used for emergency or isolated circumstances (Quick and Garran 1901, 1976: 1, 871; Wiltshire 2008: 585).

In section 90 of the Australian Constitution, the states were prohibited from levying customs and excise or bounties on production and export (Wiltshire 2008: 586). The Australian states are precluded from the bulk of indirect taxes because the Australian Constitution allocates 'customs and excise' to the national government, leaving the High Court to brand most wholesale taxes as an excise duty (this was later reinforced through the High Court decision in the *Ha* case[3] in August 1997, which declared all

[2] The formula was contained in the *Australian Constitution* s.87 – the Braddon Clause – which stipulated that the fiscal arrangements had to be reviewed after 10 years. This arrangement was later replaced by a system of per capita grants from the Commonwealth to the states.
[3] *Ha and anor v State of New South Wales & ors; Walter Hammond & Associates v State of New South Wales & ors, Ha's* case (1997) 189 CLR 465. The High Court of Australia declared all states' business franchise fees to be constitutionally invalid. The High Court ruled that the state's (NSW) tobacco licence fee was an excise duty; implications for all the Australian states. The *Ha* case (1997) reaffirmed earlier High Court decisions that defined 'a duty of excise' such that states were precluded from

states' business franchise fees to be unconstitutional). In the 1970s, after some Commonwealth-states negotiations, the states gained 'payroll' taxes and have made great use of them since that time. The other major sources of revenue for the states are royalties on minerals, stamp duties on business transactions, and taxes on motor vehicles, gambling and drinking [taxes on 'bads' rather than 'goods'] (Wiltshire 1986: 98). This domination of the taxation system by the federal government creates a considerable vertical fiscal imbalance in the federation, with a resulting necessity for the transfer of funds from national to sub-national levels (Wiltshire 1986: 179). The key feature of the Australian tax system historically has been (a) the heavy reliance on 'direct' taxes (such as 'income' tax) rather than 'indirect' taxes (such as 'consumption' taxes, and the move from WST to taxes such as the VAT, RST, BBCT, or GST); and (b) the vertical fiscal imbalance in favour of the Commonwealth (Quick and Garran 1901: 868-871; La Nauze 1972). Another source of revenue needed to be found for the states, if not income tax sharing between the states and the Commonwealth.

Taxation in Canada, contrary to Australia, is shared between the federal government and the various provincial and territorial legislatures. Under the *Constitution Act* 1867, taxation powers are vested in the Parliament of Canada under s. 91(3) for "3. The raising of Money by any Mode or System of Taxation." The provincial legislatures have a more restricted authority under ss. 92(2 and 92(9) for: " 2. Direct Taxation within the Province in order to the raising of a Revenue for Provincial Purposes." and " 9. Shop, Saloon, Tavern, Auctioneer, and other Licences in order to the raising of a Revenue for Provincial, Local, or Municipal Purposes." In turn, the provincial legislatures have authorized municipal councils to levy specific types of direct tax, such as property tax. The powers of taxation are contained in ss.53 and 54 (both extended to the provinces by s. 90), and s. 125. The federal government levies a value-added tax of 5%, called the Goods and Services Tax (GST), and in five provinces, the Harmonized Sales Tax (HST). The provinces of British Columbia, Saskatchewan, and Manitoba levy a retail sales tax, and Quebec levies its own value-added tax, which is called the Quebec Sales Tax. The province of Alberta and the territories of Nunavut, Yukon, and Northwest Territories do not levy sales taxes of their own.

A reform of the tax system in Australia also requires a consideration of the political realities of the political system and structures required to pass legislation through both houses of parliament. There may be a clash of mandates between the two houses.

Australia – Clash of mandates

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taxing the manufacture, production and distribution of goods. The Court applied the principle established in *Philip Morris* (1989) and *Capital Duplicators* (1992, 1993), the Court concluded that as the state-imposed business licensing fee on tobacco products was greatly in excess of that which was sufficient to support a regulatory scheme, the fee was held to be a tax, specifically an excise duty and therefore, constitutionally invalid (Hamill 2006: 111-2). The High Court's decision in the *Ha* case (1997) further diminished the fiscal capability of the states' while opening the door for political and bureaucratic actors to pursue their policy objectives of tax reform (Hamill 2006: 16).

Australia has an elected Senate, that is a very powerful upper house somewhat like the US Senate. In Australia there are clashing mandates between the two houses of parliament. The clash is between the House of Representatives (lower house) which forms the Government and the Senate (powerful upper house) which is a house of review. The Howard Government's 1998 election success resulted in a clash of mandates between the political parties in the two houses of parliament which would require compromise. Negotiation by the Howard Government with political opponents and minor parties such as the Australian Democrats over the GST was a lesson from *ANTS*.

Political decision making may also involve how a political system copes with or does not cope with a clash of mandates such as occurred between the House of Representatives and the Senate in this case. Under the Australian Constitution an impasse of this nature can only be resolved by a double dissolution election, or a political compromise. As stated earlier, after Friday 14 May 1999 when Senator Brian Harradine, in a parliamentary speech in the Senate, signaled his support could not be taken for granted, the Government had to negotiate with the minor parties in the Senate such as the Australian Democrats. The Leader of the Australian Democrats Senator Meg Lees was sympathetic to amending the Government's GST legislation to make it fairer. As noted earlier (with *ANTS* Mark II), a compromise was reached between the Australian Democrats and the Government over the GST involving 'essentials of life' particularly food.

The principles of taxation such as equity, certainty, convenience, efficiency, fairness are important for political parties and their leaders, in relation to the GST.

Principles of taxation

The principles of taxation are an important criteria of tax reform and the GST. The principles of taxation can be seen in Adam Smith's (1776; 1976) four cannons of taxation remain useful to contemporary assessment (i) equity; (ii) certainty; (iii) convenience [of payment]; and (iv) efficiency [economy in collection]. These principles were followed by Benthan (1789), Ricardo (1817), and JS Mill (1848). In contemporary literature Smith's 1776 general tax principles were followed and explained by James and Nobes 1992; 1997; 2004; and the remodeling of Smith's 1776 tax principles by Alley and Bentley 2005. Salanie (2011) further explains Smith's 1776 four cannons of taxation and adds two more criteria: (i) flexibility; and (ii) tax incidence. Taxation in general should be according to Mathews (i) enforceable; (ii) administratively feasible; and (iii) subject to acceptance by those on whom they are imposed (Mathews, in Wilkes 1980). The principles of taxation according to James and Nobes (1997; 2004) (i) efficiency; (ii) incentives; (iii) equity; and (iv) macroeconomic considerations. The rationale for consumption taxation can be seen in three major reasons that many economists have advocated a shift from income to contemporary taxation: (i) simplicity; (ii) efficiency; and (iii) fairness (Metcalf 1995; 2005).

The GST in Canada

The Canadian GST experience provides a dramatic case study. The debate surrounding the introduction of the Federal GST in the late 1980s and early 1990s, described as one of the most turbulent in modern Canadian politics, the GST also contributed to the Progressive Conservative government suffering the worst defeat in Canadian political history at the 1993 Federal election (Frizzell et al 1994). As was the case in Australia, the 1980s saw the Mulroney government propose a broad-based Federal consumption tax as a central component of a broader strategy of tax reform and to improve the competitiveness of the Canadian economy. In contrast to Australia in which the tax reform process was protracted as early reform attempts were defeated and proposals modified before being resurrected for political consideration, the Progressive Conservative (PC) government of Brian Mulroney was determined to introduce a GST in the face of opposition from a broad coalition of interest groups, the voting public and the Liberal-controlled Senate. The Mulroney government possessed the institutional capacity to implement the GST after obtaining a majority in the 1988 House of Commons, however the government also failed to build community support for its tax reform agenda. Opinion polls during the late 1980s and early 1990s and its performance in the 1993 Federal election demonstrated that the Progressive Conservatives and their tax reform agenda lacked political legitimacy. The case study provides empirical evidence of the underlying processes which creates popular hostility to a policy proposal such as the GST (Eccleston 2007: 88).

In 1989, the Progressive Conservative Government of PM Brian Mulroney proposed the creation of a national sales tax of 9%. At that time every province in Canada except Alberta had its own sales tax imposed at the retail level. On January 1, 1991 the Goods and Services Tax (GST), a multi-level value added tax was introduced in Canada by the PM Brian Mulroney and his finance minister Michael Wilson. The GST replaced a hidden 13.5% Manufacturer's Sales Tax (MST); PM Mulroney claimed the GST was implemented because the MST was hindering the manufacturing sector's ability to export competitively. At the time of its introduction in Canada the GST was very controversial. The GST rate is 5% effective from January 1, 2008.

The three GST landmarks in Australia

The first GST landmark, was the National Tax Summit (1985) and the Draft White Paper (1985) under the Hawke Government, which was the first attempt by an Australian Government to introduce a consumption tax called Broad Based Consumption Tax (BBCT). As will be shown, this was an unsuccessful attempt at negotiation with various groups particularly the unions, business and welfare groups. The second GST landmark, the *Fightback!* (1991) Policy was an attempt by the then LP/NP Coalition opposition to introduce a GST. This was also an unsuccessful attempt at negotiation with various groups particularly welfare and religious groups. The third GST landmark, was a successful attempt at negotiation with various groups by a LP/NP Coalition government. This attempt showed a successful negotiation by the Government over *ANTS* (1998) with various interest groups, and a compromise deal in 1999 with a minor party the Australian Democrats.

The GST landmarks were chosen by a study of the chronology of tax reform and the journey of the GST. The three GST landmarks chosen, represented the most significant turning points in the progress or delay of the development of the GST as a public policy in Australia.

Landmark 1 – National Tax Summit (1985)

Landmark 1, the National Tax Summit (1985) represented the first major public debate of the consumption tax. This was the first major attempt by the Commonwealth Government to introduce a consumption tax, a broad-based consumption tax (BBCT) (a GST style tax), in Australia. The Hawke ALP Government attempted to gain consensus for its proposal for tax reform including a consumption tax.

The Draft White Paper – *Reform of the Australian Tax System* (1985) (and its three options) and particularly the Government and Treasury's preferred option (option c) was debated at the Tax Summit but a consensus could not be found amongst the delegates. The Government wanted support from business, unions and welfare groups but the ALP Government needed the support from the ACTU for the BBCT, but progress was halted by a political decision and a deal between the government and the unions. It will be shown that, this forced a change to the policy, an incremental approach resulted to making policy.

In June 1985 Treasury had prepared the Draft White Paper. The DWP was to become an agenda document outlining the Hawke Government's blueprint for tax reform. The DWP could be considered as an attempt by the Commonwealth Treasury (supported by Treasurer Keating) at rational policy making.

The Draft White Paper (1985) – An attempt at rational policy making

The major piece of evidence provided for the National Tax Summit (NTS) (1985) was Treasury's Draft White Paper - *Reform of the Australian Tax System* (1985). The evidence provided by the Draft White Paper (1985) was from many sources including OECD and member country reports, Taxation reports, parliamentary reports and papers, ABS reports and court cases. With the Draft White Paper (1985) and the National Tax Summit (1985), the Government's primary objectives were to make the tax system 'fairer' overall and more conducive to 'economic growth'.

The rational approach and its criteria can be applied to the drafting of the DWP (1985) on the basis of available evidence by the Commonwealth Treasury Department and the Government's choice of option to make the taxation system fairer but the available options presented were limited. The DWP represented an attempt at the rational approach. It was evidence based and an agenda document that set up various possibilities for future tax reform and structural change.

The DWP (1985) presented three alternatives for tax reform (DWP 1985: Chapter 22). Option A essentially consisted of broadening the indirect tax base; Option B consisted of Option A but with additional measures to broaden the indirect tax base through the introduction of a 5% RST and levying the existing WST at 10% on selected goods; and the Government's-preferred 'Option C' which entailed Option A tax base broadening plus a shift in the tax mix from income to consumption with the introduction of a BBCT (or RST) of 12.5% (replacing the WST). Treasury predicted the revenue gains would allow a 30% reduction in income tax rates and additional compensation measures for low-income earners and pensioners (DWP1985: 242-5; James 2008: 5).

The reasoning behind the Draft White Paper (1985) document was to start a logical, ordered sequence to tax reform in October 1984 promised by Hawke during the election campaign. The review was to involve the preparation of a DWP (1985) intended to serve as the agenda document for a proposed NTS (1985). On the basis that a broad consensus could be reached at the Tax Summit, it was envisaged that the Government would announce a tax reform package towards the end of 1985 (Boxer 1985: 364).

The document (Draft White Paper, June 1985) was to be used by the participants at the Tax Summit, held in the next month (the National Tax Summit, 1-4 July 1985). The Tax Summit and its participants were expected to accept the Hawke Government's preferred option (Option C), from the DWP (1985). After this, legislation was to be drafted later in the year then presented to Parliament, where it would be passed by both Houses and passed into law (this did not happen) (Boxer 1985).

In regard to the National Tax Summit (NTS) (1985), a rational approach was undertaken by Commonwealth Treasury Department in its analysis prior to the NTS in the preparation of the DWP (1985) based on data and evidence regarding the taxation system. The NTS however in practice had overall a far more a political approach taken than a rational approach. The DWP and the NTS were intended to facilitate the widest possible community involvement in achieving the stated goals (improving the equity, efficiency, and simplicity of the taxation system) (see principles of taxation earlier in this paper). The common thread that runs through the stated approaches is that a substantial broadening of the major bases of taxation would provide the additional revenue necessary to substantially lower marginal personal tax rates (DWP 1985: 21).

Policy Networks and Advocacy Coalitions

The unions like the welfare lobby in general rejected Option C and supported Option A. The reason being that the ACTU President Bill Kelty (NTS ROP 1985: 43-45) raised objections that the Option C proposal would have a cumulative "double tax" effect in some instances by taxing inputs such as building materials and then final products. This would impact in a major way on the trade union membership.

The welfare lobby like the unions in general rejected Option C and supported Option A. The reason being as ACOSS had pointed out that the regressive effect of a high indirect tax (a consumption tax) threatened the constituency of the welfare lobby: i.e. those on low incomes, social welfare and the poor.

The business sector rejected all three Options A, B, and C (see speech by Bob White, President of the BCA; NTS ROP 1985: 4-6). The major business groups included the BCA, the CAI and the ACC, all supported Option C's shift from direct to indirect tax but not the other elements. The reason being business and employers would have nothing to do with the Government's proposals for a CGT, FBT and the elimination of negative gearing concessions.

Landmark 2 – *Fightback!* (1991, 1992)

Fightback! (1991)[4] policy revisited the issues raised at the NTS (1985) and revised the consumption tax or GST proposal. The *Fightback!* Policy was not subject to the rigours of analysis and debate through government policy mechanisms as the other proposals. However it was extensively analyzed by Access Economics who prepared the policy, as well as analysis from academic institutions and academics who were involved in policy studies. Many of the previous studies and models were considered by Dr John Hewson and Peter Reith and their staff as well as by Access Economics before formulating the comprehensive economic plan for Australia in *Fightback!* The institutional knowledge and experience from Treasury and the NTS in 1985 was used by the Keating Government against Dr Hewson's *Fightback!* Policy and the GST in 1992. This attack forced a change to the policy to become *Fightback!* Mark II (1992)[5] and an incremental approach resulted to policy making.

Hewson represented the *Fightback!* Mark II Policy as a less rational policy and its formulation followed a more incremental process. *Fightback!* Mark II (1992) represented a political compromise and softening of the hard edge right wing political and economic agenda by a conservative Opposition. The 1993 federal election result brought this attempt at introducing the GST to an end.

Fightback! - An attempt at rational policy making

The research for *Fightback!* was provided mainly by Access Economics (right wing think tank), as well as a compilation and analysis of previous studies, from Government, academic, business and so on (Hewson and Fischer 1991). The references (reports) used by *Fightback!* were varied and many were from previous inquiries. The values and philosophy involved in *Fightback!* (1991) were: a neo-liberal policy manifesto; economic liberalism; and individualism reflecting the neo-liberal goals of Dr Hewson.

The *Fightback!* (1991) Policy did set out the objectives (goals) of tax and expenditure reform. Five guiding principles underlie the tax reform proposals outlined in the document. First, the aim was to produce lower taxes and a 'simpler' and 'fairer' tax system which would boost the incentives to work, save, and invest. Second, to produce a tax system that would make the Australian economy more internationally competitive and productive. Third, to make the operation of the tax system transparent and simpler to the taxpayer. Fourth, to establish a tax system that raised the revenue necessary for government programs in the most efficient and effective way. Fifth, to establish a tax system that built a stable and reliable base for public expenditure programs in both Commonwealth and State sectors of responsibility. Also there were important objectives underpinning the reform of government

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[4] *Fightback!* 1991 – *Fightback! Its your Australia: the way to rebuild and reword Australia*, Liberal and National Parties, Canberra (Coalition's Policy Statement).

[5] *Fightback!* Mark II 1992. *Fightback! Fairness And Jobs*, Liberal and National Parties, Canberra, (announced on 9 December 1992 by Dr John Hewson) (Dr Hewson launched *Fightback!* Mark II at the National Press Club on 18 December 1992).

expenditure, such as in all areas of government, the need to target programs more effectively, to deliver programs and services more effectively, and to reduce or abolish programs that are no longer cost-effective or appropriate (Hewson and Fischer 1991: 4).

One Nation (1992) (ALP Government's response to Fightback!)

PM Keating consulted with the various groups in the community and asked their opinion on what changes were needed to the Government's policies. In February 1992, the *One Nation*[6] *(ON)* Statement was delivered by PM Paul Keating which promised that a re-elected Labor Government could deliver the same personal income tax cuts as the Coalition's *Fightback!* Policy to middle class voters but without the need for a GST. The *One Nation* Statement was the Keating ALP Government's response to the Opposition's *Fightback!* Policy. Much of the *ON* was determined in the PM's (Keating's) office not in the Treasury. The economic forecasts upon which the *ON* Statement depended were highly manipulated to justify the package as affordable (Hendy 1997: 110-1). In November 1992, Keating declared that the ALP opposition would not oppose a GST in the Senate (Watson 2011: 272). Keating also declared that: 'If you don't understand the GST, don't vote for it. And if you do understand it. I know you will never vote for it' (*Australian*, 3 March 1994; Kelly 2011: 84).

Fightback! Mark II Policy and GST (1992) – response to public pressure

In December 1992, Dr Hewson reconsidered *Fightback!* and re-launched it to make the GST more acceptable to the community. The major provisions were to remove the GST on food and childcare through zero rating and provision for a Rebuild Australia fund for new public works. This policy targeted support from particular groups, such as welfare groups. The announcement of *Fightback!* Mark II was obviously motivated by the Liberal Party's declining electoral fortunes (*Bulletin*, 22 December 1992: 11) and the consequent threat to Hewson's leadership of the Liberal Party (*Sydney Morning Herald*, 19 December 1992; *Bulletin*, 29 December 1992: 14; Blount 1999: 23).

Policy Networks and Advocacy Coalitions

In response to Dr Hewson's *Fightback!* (1991) Policy, the support from business groups for a broad-based consumption tax (BBCT) or a goods and services tax (GST) was overwhelming [although some had reservations] (Dwyer, Dusevic and Davis 1991, *The Australian Financial Review*, 22 November 1991: 7). The Business Council of Australia, the Confederation of Australian Industry, Metal Trades Industry Association, Australian Chamber of Manufacturers, Australian Institute of Company Directors, Australian Mining Industry Council and National Farmers Federation all strongly endorsed the GST proposal (Dwyer, et. al. 1991: 7). Australian business also

[6] Keating, P. 1992. *One Nation*, Statement by the Prime Minister, Canberra, AGPS, 26 February 1992.

welcomed plans to abolish the wholesale sales tax and State payroll taxes (Dwyer, et. al. 1991: 7).

Welfare groups were well represented by the Australian Council of Social Services (ACOSS). The ACOSS spokesperson said the hurtful effect of the GST on low-income earners outweighed any potential benefits (Dwyer, et. al. 1991: 7). However, ACOSS economic spokesperson, Julian Disney (also an ACOSS delegate at the NTS 1985), welcomed the proposals to encourage savings and superannuation and the decrease in the company tax rate [Corporate and top personal income tax rate aligned at 42 per cent from January 1996 (Hendy 1997: 20)] (Dwyer, et. al. 1991: 7). ACOSS condemned the initiatives as one that would "gravely hurt many of the most disadvantaged and vulnerable people in the community" (ACOSS, in Milne 1991, *The Australian*, 22 November 1991: 1). The President of ACOSS, Merle Mitchell said "a key problem with the tax package was in the area of compensation" (Mitchell, in Shanahan 1991, *The Australian*, 22 November 1991: 1, 2).

Trade unions were well represented by the Australian Council of Trade Unions (ACTU). The ACTU President, Martin Ferguson, described the *Fightback!* (1991) tax package as a "very complicated bag of tricks" (Ferguson, in Dwyer et al 1991: 7.). He also said: "therefore, the ACTU will unpack the Coalition's policy bag, analyse carefully each of the elements in it, look behind the mirrors and advise members of the costs and benefits involved in the package" (Ferguson, in Dwyer et al 1991: 7). The ACTU in a general sense reserved judgment on the tax package. The president of the ACTU, Martin Ferguson, refused to condemn the goods tax (GST) outright (Milne 1991: 1).

After the March election 1993 defeat for the LP/NP Coalition, the *Fightback!* Policy and the GST demise occurred in July 1993. John Howard was re-elected leader of the LP in January 1995. However political pragmatism forced Howard to publicly abandon his career-long commitment to consumption tax reform. Howard in an exercise in political expediency declared 'there's no way the GST will be part of our policy. It's dead. Never ever. It's dead' (Grattan 1995, *The Age*, 3 May 1995: 5; Megalogenis 1999: 99).

High Court decision

In 1997 an important High Court case concerning states taxes created a problem for state governments and Australian taxation policy and encouraged further debate about tax reform and the GST. The High Court of Australia in *Ha v New South Wales* (1997) 189 CLR 465 (the *Ha* case) dealt with section 90 of the Australian Constitution, which prohibits the States from levying excise. The High Court decision viewed the NSW scheme (requiring a licence to sell tobacco in NSW) under the NSW Act (*Business Franchise Licences (Tobacco) Act 1987* (NSW)) as purely about revenue raising without a discernible regulatory element, giving it the appearance of a tax. Under the High Court's broad of s. 90 the 'licence fee' imposed by the NSW State Government was in fact an excise, which under the Australian Constitution, States are barred from imposing.

The *Ha* case (1997) decision effectively declared all current State business franchise fees to be constitutionally invalid. On 5 August 1997, the High Court made an important decision in the *Ha* case on business franchise fees regarding the States. In effect the constitutional validity of business franchise fees on tobacco was challenged through the High Court in the *Ha* case.

On 11 and 12 August 1997, PM Howard took his initial tax reform proposals to a special Cabinet meeting. Partly as a result of the High Court decision in the *Ha* case, in August 1997 the Cabinet agreed to pursue tax reform.

Landmark 3 – *ANTS* (1998, 1999)

Landmark 3, the federal election (1998)/*ANTS* (1999)//*IGA* (1999) represented a further revisit of the issue of the GST. The *ANTS* (1998)[7] tax package was the third major attempt to introduce a consumption tax, this time by a LP/NP Coalition government. This GST policy process included the *A New Tax System* (*ANTS*) (1998) tax package, the *Intergovernmental Agreement* (*IGA*) (1998) with the states, the 1998 federal election result, the Government's negotiation with the Australian Democrats (1999) and the resultant deal or compromise agreement resulting in the revised *ANTS* (1999) and *IGA* (1999). It represented a further revisit of the consumption tax or GST to a successful conclusion and its implementation in Australia in 2000. This process forced a change to the *ANTS* and GST policy and an incremental (or combination of rational and incremental) approach in policy making resulted.

ANTS Mark I and GST (1998)

On 28 July 1998, the Cabinet amid tight security endorsed the 208-page document, followed by the conservative Premiers and finally by the parliamentary Liberal and National Parties. On 13 August 1998, the Howard Coalition Government released its tax package, *Tax Reform: Not A New Tax, A New Tax System* (*ANTS*). The *ANTS* 1998 package proposed a 10% GST on all food and clothing. The public was given less detail (on third of *Fightback!* size) and less time to respond, an election was called within two weeks of the release of *ANTS* (James 2008: 10). Howard sought a mandate from the Australian people for broad-based consumption tax reform. In contrast under the leadership of Kim Beazley the ALP's tax package main feature was the absence of a GST. The response to the ALP tax package apart from support from unions, from the press, business and welfare groups was scathing. ACOSS president Michael Raper labeled the ALP tax package 'fair enough, but not good enough' and stated 'ACOSS does not accept Labor's argument that the tax system is not 'broken' (ACOSS, Media Release, 3 September 1998).

The Australian Catholic Social Welfare Committee campaigned strongly that food should be excluded from the GST. The Howard Government's plan was to legislate the tax reform program by mid-1999. This would allow businesses a year to get ready before the GST took effect on 1 July 2000. The Sydney Olympics (2000) were to be held later that year (15 September – 1 October 2000) and the Government wanted foreign tourists to pay the GST, just as Australians paid as tourists in other countries. The Government also wanted the new tax system in place before the next election, due in 2001 (Costello and Coleman 2008: 134).

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[7]*ANTS* 1998. – *A New Tax System. Tax Reform: not a new tax, a new tax system*, The Howard Government's Plan for a New Tax System, Circulated by the Honourable Peter Costello, M.P. Treasurer of the Commonwealth of Australia, August 1998, Canberra, ACT: AGPS.

PM John Howard hailed his new *ANTS* tax system as the most significant overhaul in almost 100 years. The proposed reforms included a 10% GST and the promise of income tax cuts (Howard, *The Age*, 14 August 1998: 8).

The following is a short explanation of the GST introduced by the Howard Government.

ALP Opposition's response to ANTS (1998)

The Opposition Leader, Kim Beazley said "the [*ANTS*] package was a massive tax switch that handed far greater benefits to the wealthy at the expense of lower and middle income earners" (Beazley, in Nicholson, B. 1998, *The Age*, 14 August 1998: 11). On 27 August 1998, Kim Beazley released the ALP's tax package: *A Fairer Tax System – With No GST*, which offered carefully targeted income tax credits for low to middle income earners which would taper out once family income exceeded $60,000 per year. Overall the ALP's tax reform package was influenced more by political imperatives than economic goals (Kelly 1998, *The Australian*, 28 August 1998; Eccleston, R. 2001: 218; Eccleston 2004: 141). The Beazley ALP Opposition tax package could be considered to be a limited political response or an incremental approach to the Howard Government's *ANTS* tax package, perhaps because of the limited time available to respond.

Policy Networks and Advocacy Coalitions

In response to the Howard Government's *ANTS* (1998) legislation and GST, the support from business groups for a broad-based consumption tax (BBCT) or a goods and services tax (GST) was overwhelming. The overall reaction to Howard's much anticipated tax package was largely predictable with business leaders and economic commentators applauding the proposal. The Australian Chamber of Commerce and Industry (ACCI), which had rejuvenated the reform process in 1996, with the ACCI/ACOSS National Tax Summit (October 1996), was pleased with the outcome. Its executive director Mark Paterson commented that: 'it is clear that the Government has listened to the concerns of the business community and it has sought to provide a package of reforms that moves away from taxing business inputs (Paterson 1998, in *The Australian*, 14 August 1998: 2; Eccleston 2001: 215). According to Peter Costello, the Government encouraged third-party advocacy groups televising on the need for tax reform. The Business Council of Australia (BCA) in particular was very helpful (Costello and Coleman 2008: 130-1).

Social welfare response, including the Australian Council of Social Services (ACOSS), was more qualified in their response (Eccleston 2001: 215). ACOSS stated that although it supported tax reform 'there was too little in the package to improve fairness' (ACOSS 1998, Media Release, 3 September 1998). Less than a week after the Government policy launch, ACOSS released an analysis of the *ANTS* (1998) package which described it as 'unsustainable, unbalanced, unfair, and therefore unacceptable in its present form' (Eccleston 2001: 216).

On the release of the Government's *ANTS* (1998) package on 13 August 1998, the ACTU President, Jennie George said that "hidden behind the sparkle of the promised income tax cuts was a massive new tax that would hit wage and salary earners every time they spend a cent" (George, in Nicholson 1998: 11). The ACTU President Jennie George said about the GST at the time: "it's a gigantic tax switch which will hit low-income earners hardest while the wealthy benefit" (George, in *The Australian*, 14 August 1998: 2).

Lessons to be learned from tax reform and the GST

A consensus was needed to be found at the NTS (1985) for the BBCT/GST to go forward. The business groups and trade unions were unable to reach a consensus. Also, the NTS illustrated that *compromise* is required, from groups with fixed positions on tax reform, on all sides of government, business, trade unions and welfare for the attainment of consensus. The Tax Summit ended before compromises could be achieved.

The *Fightback!* Period demonstrated that even in an opposition policy election platforms such as the highly developed GST policy needs support from important interest groups such as the trade unions, welfare groups, business groups as well as public support for radical tax reform to be accepted. The Opposition also needed to keep the spotlight on the Government's failings and the severity of the recession. The complexity of the *Fightback!* Policy diverted attention from the main issues. This research particularly highlighted the practical reality that a complex policy such as *Fightback!* which was formulated and developed with a rational approach needed greater advocacy and time spent persuading the various interest groups of its merits.

In regard to major policy reform, such as *ANTS* (1998, 1999) and the GST, Government needs support from parliament (both houses of parliament), including independents and minor parties such as the Australian Democrats (who held the balance of power) in the Senate, and the support of important interest groups. Important interest groups and advocacy coalitions needed for support for a tax reform policy includes interest groups such as the trade unions – Australian Council of Trade Unions (ACTU), welfare groups – Australian Council of Social Services (ACOSS), business groups – the Business Council of Australia (BCA), the Australian Chamber of Commerce and Industry (ACCI), and the business lobby group, the Business Coalition for Tax Reform (BCTR) as well as general public support for the success of tax reform (including a GST), that is, for tax reform to be accepted, supported and implemented. The research highlighted that interest groups had to abandon fixed positions on tax reform, on all sides including government, business, trade unions, and welfare groups is required for the attainment of consensus or a joint agreement.

Findings

This research found that the GST policy process passed through nearly all of the policy process iterations known in the literature and real world of public policy. The GST policy process 'oscillated' from the rational approach to the less than rational approaches under a myriad of influences. Instead of a standard traditional stage model for government policy or programmes (Anderson 1984), the GST process model could be represented as a 'gauge' that starts as rational then under the heat and pressure of numerous political events and criticisms from interest groups, opposition parties and groups, the media, opinion polls, inquiries reports and so on, cause the policy process to move from the rational end to the less than rational end of the continuum. This process could also be seen as a 'pendulum' with the mixed approach in the middle between the rational and the less than rational approaches. Another possible description of the GST policy process could also be described as a 'spiral' process where numerous political events caused it to move between the rational and less than rational approaches. Indeed significant events such as the three GST landmarks identified in the research as: (1) the National Tax Summit (1985), (2) *Fightback!* (1991), and (3) federal election (1998)/negotiation with the Australian Democrats (1999)/*ANTS* (1999)/*IGA* (1999) caused the public policy process to revert back to rationalism and to start the process again at each landmark (Alvey 2014).

Another key finding is the nature of public policy to repeat over time. The 'iterative' nature of public policy is an important aspect of the study. It is often the case that policies are introduced and fail and it takes several more attempts to get them accepted. There are various reasons for this. It can be because people do not understand them or fear them first time around. Attitudes change due to the educative effect of previous attempts to introduce the public policy. For example, attitudes in the business and welfare sectors changed over time in regard to the GST (Alvey 2014).

Recent GST development in Australia

It is worth Mentioning the latest arrangement of the distribution of the GST revenue for the Australian states particularly WA. The current arrangement for WA regarding the more favourable distribution of the GST was brought about after considerable political pressure by WA onto the Commonwealth Government. PM Morrison put a three quarter cap on fiscal equalization. Through the resources boom, as WA royalty revenues soared and the states's coffers swelled, the then WA Premier Colin Barnett cleaverly capitalized on the west's sense of isolation, arguing WA were being "ripped off" on the GST carve-up. At one stage, Premier Barnett even waned of an American-style Tea Party revolt. Throughout it all, Barnett demanded WA receive no less than 75 cents of each dollar it collected as GST – an idea that was heavily criticized by the other states and most experts. Treasurer Scott Morrison delivered for the west by outlining the "problem" the mining boom had created for the GST carve-up by increasing volatility in the system (Verrender, *ABC News*, 6 July 2018).

In October 2018, PM Scott Morrison promised to legislate changes to the GST distribution within weeks to guarantee WA's share does not fall below 75 cents in the dollar. This pledge by Morrison kicked off a three day visit to WA, matching a recent commitment made by Opposition Leader Bill Shorten to ensure the GST floor in law (*ABC News*, 1 October 2018). In November 2018 after a decade-long campaign from WA for a fairer deal, the Morrison Government's GST reform package unanimously passed the Senate. The GST overhaul will cost $10 billion over a decade, and there has been a guarantee that no state or territory would be worse off enshrined in law. Under the new plan, WA will be $4.7 billion better off over a period of eight years. The so-called top-up payments will start to flow into state coffers from next year in 2019 when a staged plan to implement the overhaul begins. The breakdown of how much additional cash WA will get over the next few years includes: 2019-2020: $814 million; 2020-2021: $585 million; and in 2021-2022: $305 million. After that, a key element of the GST overhaul kicks in – a new GST floor. It is interesting to note, just how bad did WA's GST share get? Western Australia 's share of GST fell to 30 cents in the dollar in 2015-16 as the Commonwealth Grants Commission continued to deem it "the state with the strongest fiscal capacity", long after the mining boom had ended (Laschon, *ABC News*, 14 November 2018).

Conclusion

The research (Alvey 2014) addresses the question of 'can policy making ever be purely rational?' and, if so, when and how, based on my observations of the policy process. My analysis of a long-term policy gestation process that is the GST seems to confirm the Lindblom (1959) hypothesis that pure rational policy-making is nearly impossible. The policy process is often for example: incremental rather than rational-comprehensive; uses limited data rather than being evidence based; is influenced by pressure groups and major stakeholders, and influenced by policy networks and advocacy coalitions; there are limited comparisons; ends and means are not distinct; there are political influences such as opinion polls and the role of the media in agenda setting; and there may be limited options that are identified. This generalization may not be confined to taxation policy although tax policy brings out a nation's values, political influences, and conflicts like no other arena of public policy. If the public policy process is like this in tax it is likely to be pervasive.

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