

The Goods and Services Tax: Enforceable Guidelines

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The Australian Competition and Consumer Commission (ACCC) has established enforceable guidelines applicable from the elimination of some wholesale sales taxes (WST) and for two years after the imposition of the goods and services tax (GST). The guidelines provide that the amount of WST and other indirect tax reductions be deducted from prices and that percentage margins are not added to GST, so that the reductions of WST, starting on 29 July, are completely passed on to purchasers; and that no more than the increases on the introduction of GST, on 1 July 2000, are added to the prices of goods and services. Provision is made for fines of up to \$10 million for businesses and \$500,000 for individuals charging more than these limits, or advising that non-conforming price changes are consistent with the guidelines.

This enforcement programme is directed primarily at retailers.

This announcement is the first occasion, since World War II, that the Australian government, or any of its agencies, has set prices, or a component of prices, other than those under agricultural marketing arrangements and price limits on some activities that are considered to be monopolies. It represents an increase in economic regulation.

Present competitive markets are not completely efficient in allocating resources. No economic structure will ever be immune to improvement. There is resale price maintenance, collusion and other monopolistic pricing, and some large purveyors of goods and services engage in predatory pricing. These call for ACCC intervention. But, ensuring that changes in price margins reflect only tax changes will not have any effect on the ACCC's influence on these non-competitive practices. It will only extend the regulation of competitive markets. It will encourage the campaigns for the maintenance of, or increases in, and regulations by protected industries, pharmacies, newsagencies, independent stores, etc. for the prevention of increased competition in potentially competitive markets.

The ACCC declares that competition limits the ability of enterprises to engage in price exploitation. But the apparent assumption behind the new guidelines is that pricing decisions in at least some competitive markets are, at least partly, arbitrary acts by individual enterprises, not responses to purchasers' demands. If price-setting were not considered to be arbitrary, there would be no reason for these enforceable guidelines.

Most goods, particularly significantly differentiated ones, and many services, carry mark-ups that vary over time, by location, season, day of the week, and even different hours of the day (such as special luncheon prices). Almost all these variations reflect competitors' responses to different consumers' demands, or to changes in them.

In a competitive economy, prices change in response to product changes (this season's skirt is not the same as last season's, frozen vegetables are not perfect substitutes for fresh ones). Consumer preferences change, making old margins unrealistic. Only competitive markets react to changes in demand and supplies.

For goods and services sold at different times, the determination of an historic weighted average of mark-ups is only conceivable on the assumption that the mix of transactions at different margins does not change over time.

Arbitrary decisions will have to be made when commodities change, as happens as fashion items vary from season to season, or when new commodities are sold and old ones dropped.

It will not be simple to determine the equivalent of margins on services where a rounded total charge, inclusive of GST, is required to be quoted under the guidelines. As these charges (ex GST) tend to change, in line with most prices, or as new techniques are introduced, the

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identification of the GST element of price changes will be arbitrary.

The imputation of margins on input-taxed services (chiefly financial transactions), where costs are raised by GST, presents allocation problems that are likely to arouse dissent from individuals who find their charges raised by the non-reimbursement of GST to the service providers.

The bureaucratic discretion involved in the required decisions will, almost inevitably, require negotiation based on historic evidence. Past experience indicates that such negotiations tend to be biased to protecting the status quo, to the detriment of consumers.

This negotiation will require records of pre- and post-tax costs and prices of all transactions by every entity. These will have to be detailed to ensure that the GST on inputs is not included in the costs on which mark-ups are based (presumably, the interest on the increased working capital requirements will be an eligible cost). This reporting will involve an increase in costs for all enterprises. These are the 'additional costs' that may, under the guidelines, be added to pre-tax margins.

Hence, the introduction of the GST will lead to a rise in prices slightly greater than the GST.

In addition, it will involve costs from the diversion of resources from the ACCC's monitoring of anti-competitive practices or of additional tax-financed administrative costs to be added to the effective cost of the New Tax System.

The adoption of the present GST is a step towards a more rational fiscal system. It would have been a longer step without the Senate's amendments, but it may be lengthened in future. The ACCC should be an institution that stimulates economic flexibility by encouraging competition as part of a programme to increase the welfare of Australians. Its imposition of dollar guidelines tends to put bureaucratic intervention in the place of competitive adjustment. It tends to weaken indirect tax reform that should further liberalise the economy to make it more internationally competitive and raise Australian living standards, including a reduction of unemployment.

It is possible, if not probable, that the ACCC will not intervene bureaucratically in the way that is implied in its guidelines statement. If so, should a government agency issue a 20 page document, plus a promised series of *GST talks* (2 have already been issued) indicating that it intends to take such action?

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