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PRIME MINISTER

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Dr Hewson's consumption tax package raises a fundamental question: is Dr Hewson serious about microeconomic reform and achieving the fundamental changes he claims are so vital for the Australian economy? If so why has he made no allowance for road user charges in his calculations and policy design?

Dr Hewson's package attempts to paint a picture of a new, dynamic Australia where business has been freed from supposed constraints and operates in a revamped environment that promotes a vastly enhanced level of efficiency.

In Table 4.1 on page 33 of the summary document, Dr Hewson enthusiastically embraces the estimated benefits from microeconomic reform prepared by the Industry Commission (IC) and others. Here, and elsewhere, much is made of the benefits from reform of transport. Indeed Dr Hewson becomes quite lyrical about the importance of an efficient transport system to Australia.

> "If Australia is to compete effectively on world markets it must not only deal sensibly with the "tyranny of distance" between us and our overseas markets. It must also deal sensibly with our very own domestic "tyranny of distance". (Supplementary Paper 8, p.1)

Dr Hewson's commitment is also quite specific and detailed:

> "The incoming Coalition Government, therefore, will request the newly established National Road Transport Commission to review a national system of road user charges to apply following the implementation of our tax reform package. The Commission would be guided by the need for the system of road user charges to be equitable, efficient and simple to administer. The Commission would be free to recommend that charges take any form or combination of forms.

These changes to the arrangements for road funding will ensure that all revenue raised by user charges will be spent on road maintenance and construction. The overall level of road user charges and road expenditures will be the responsibility of the National Road Transport Commission. Charges and taxes on road users and the level of expenditure on roads will no longer be subject to the vagaries of the political or budget processes which have produced wild fluctuations in rates of charge and levels of expenditure in past years." (Main document, pp. 82-3)

The package specifically recognises the revenue implications of the introduction of road user charges:

"The funding of road expenditure by road user charges has the potential to improve the budgetary position of the Commonwealth and to this extent the fully funded proposal contained in this package is very conservative." (Supplementary Paper 8, p.15)

In fact the revenue raised under the system proposed in the report on road user charges by the InterState Commission (ISC) would be about $4 billion.

But when it comes to recognising that the imposition of these charges has implications for the price of fuel, Dr Hewson's document is strangely silent. Page 82 of the main document contains the inaccurate excuse:

"At the present time the Federal Government and the States are in this process of negotiating a new approach to road funding. These negotiations are however hampered by the Commonwealth reliance on fuel excises as a source of general revenue and by the increased reliance of the States on fuel-related franchise fees as a milch cow for general revenue.

At the time of developing this proposal the final nature and design of the new arrangements is unknown. The Coalition therefore is not now in a position to assess the adequacy or otherwise of the new road user charges that are expected to be implemented next year or beyond."

In fact a great deal of work has been done and publicly released by the ISC (two reports) and the Premiers' Conference Over-arching Group on Land Transport (OAG). On the basis of this work the Commonwealth and the States have concluded an agreement covering the introduction of road user charges for heavy vehicles and legislation giving effect to this agreement was introduced in the Senate on 14 November. The details of this agreement, going to mechanisms for setting and collecting these charges and to their likely magnitude, were announced in the communique from the July Special Premiers' Conference and supporting documentation. The details run to a number of pages but a key paragraph demonstrates that road user charges on fuel would be absorbed into the existing excise and not levied as an extra charge:

> "Registration charges and the road use charge component of Commonwealth excise on diesel are to be adjusted in future by the National Road Transport Commission in line with the amount of national road system costs attributable to heavy vehicles. Accordingly, State fuel franchise fees and the taxation component of Commonwealth diesel excise are to be separately identified and adjusted in future by separate mechanisms." (July communique, p.10)

Dr Hewson chose to ignore this wealth of material that could have provided an entirely satisfactory basis for factoring road user charges into his calculations.

Why?

Could it be that the conclusions of such an analysis are unpalatable and unacceptable to the National Party?

The impact on his calculations and claims are certainly dramatic and far reaching. Let me illustrate.

The work by the ISC and the OAG, referred to earlier, concludes that an element relating purely to distance travelled is essential in any system of road user charges and that the only effective and efficient way to achieve this is through a charge on fuel. Their work suggested that a charge of around 16c a litre would be required on both diesel and petrol.

With such charges in place, Dr Hewson's maximum scope for reduction of the then remaining petrol and diesel excises is 9.8c a litre. This would be the maximum fall in fuel prices he could offer business users. Private motorists are subject to the 15 per cent consumption tax, estimated at 7c a litre in Dr Hewson's document, and, therefore, would see falls of no more than 2-3c a litre.

The savings for the average family that Dr Hewson makes so much of would be reduced from $11.40 for a 60 litre tank of petrol to $1.20-1.80, a dramatically different story - - the sort of savings that can be made in periods of petrol price discounting.

The savings in business costs flowing from reductions in fuel prices that he refers to repeatedly throughout the document would be cut by about two thirds.

Dr Hewson's CPI calculation would require significant correction. The removal of 16c from the proposed reduction of 25.8c in the excise on a litre of fuel cuts the 1.3 percentage point price level reduction from this source (reported in Table 8.1 on page 134 of the main document) to 0.5 percentage points. Hence, on Dr Hewson's own figures, the impact of the package on the CPI is not an increase of 4.7 per cent but an increase of 5.5 per cent, with obvious implications for the adequacy of the so-called compensation package.

Will Dr Hewson fall at the first hurdle of microeconomic reform because of the National Party veto?

Which do we take seriously, Dr Hewson's vision for a more efficient Australia based on a Government prepared to take tough decisions or the calculations and assertions about the impact of the package in Dr Hewson's "carefully prepared" document?