



PRIME MINISTER

STATEMENT BY THE PRIME MINISTER THE HON P J KEATING MP CANADA AND THE GST: A WARNING TO AUSTRALIA

Mr Mulroney has now resigned as Prime Minister leaving Canada deep in the grip of recession with unemployment around 12 per cent, non-existent growth and a current account deficit of 4 1/4 per cent of GDP. Mr Mulroney and his Party's standing with the electorate have plummeted since they introduced a 7 per cent GST in January 1991 to replace a federal manufacturing sales tax of 13 1/2 per cent.

The parallels with Australia if Dr Hewson were to be elected are very worrying.

In Canada, Mr Mulroney was forced to omit food from his GST and he was also forced to reduce the rate from 10 per cent to 7 per cent because of fears about the equity of the GST and the negative impact that such a tax would have on the Canadian economy.

Mr Mulroney claimed that because his GST would replace a sales tax and because his GST exempted food, the CPI effect would be small at only 1.2 per cent. The CPI effect turned out to be close to 3 per cent.

Mr Mulroney refused to recognise that his GST was having such a big impact on inflation in Canada and the Bank of Canada tried to squeeze inflation out of the system by holding up interest rates after the GST was introduced.

The result was worsening recession, higher unemployment, declining living standards, economic dislocation and a terrible compliance burden on small business.

In an attempt to escape the burdens of the GST, small business have started to barter their products. People are bartering plumbing services for dental services just to escape the dreadful impact of the tax. The cash economy is booming.

Consumers are forced to shop in the USA to escape.

This is what Australia faces if Dr Hewson is elected, except for Australian consumers there is no escape and the tax is twice as large.

Dr Hewson says his GST will put the CPI up by 2.1 per cent.

It will not.

All the experience around the world says it will be much higher and around 4 to 5 per cent.

Just like in Canada, Dr Hewson in Government would refuse to recognise the awful consequences of his GST and the Reserve Bank would be instructed to squeeze the surge in inflation from the system.

Already Dr Hewson has told the Reserve Bank that it will have only one objective.

Keep inflation at 0 to 2 per cent.

If Dr Hewson is elected, Australia would live out the pointless tragedy that has just engulfed Canada.

The recovery would be aborted, unemployment would rise further, living standards would fall, the exchange rate would rise, our exports would suffer and our current account would worsen.

MELBOURNE
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