The Coalition needs a dose of reality on business

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From the GrainCorp deal to the NBN, the Coalition's attitude on business has always been to sandbag existing rust-bucket firms. Expect the same approach to GST reform, writes Ian McAuley

Proposals to cut back the GST-free threshold for online imports come from two sources: state governments who are missing out on GST revenue, and bricks-and-mortar retailers who are missing out on sales.

Few would dispute the legitimacy of the states' claims. States have been hit hard by falls in GST revenue. By my calculations if GST collections were at the same level as before the GFC, state governments would be around $8.1 billion a year better off. If all or most low-value imports were subject to GST there would be some restoration of revenue, in the order of $0.5 to $0.6 billion a year according to John Daley of the Grattan Institute.

The retailers' case is harder to justify. Their complaints about online competition have echoes of the 1960s and 1970s, when firms' responses to falling profits were to seek special assistance from the government. Our retail industry has much in common with those old manufacturing industries that sheltered behind a tariff wall. A 2011 Productivity Commission report into retailing found, in relation to online competition:

> "The intensified competition is good for consumers, but is challenging for the industry which, as a whole, does not compare favourably in terms of productivity with many overseas countries. And the productivity gap appears to have widened over time."

The commission's study revealed an industry with many high-cost practices. In particular occupancy costs – mainly rents paid to landlords – were high. It also found that trading hour restrictions in some states, particularly Western Australia, Queensland and South Australia, were resulting in under-utilisation of fixed capital and missed opportunities for trade.

The industry, however, has been able to pass these costs on to consumers, and to make a healthy profit. The commission found that out of 17 industry sectors only the mining industry was more profitable than retailing over the five years to 2010. Unsurprisingly, and in confirmation of similar findings by the consumer organisation Choice, it found large price differences in identical goods offered by Australian shops and overseas online suppliers, and these differences were much greater than explicable by the GST exemption.

A shareholder at this year's David Jones AGM captured the issue when he said:

> "If you think that my children that are buying goods overseas for half price are going to be worried about 10 per cent on a pair of running shoes that they can buy for $150 overseas and you sell for $300. If you think $15 is going to make a big difference, you are dreaming. You are completely out of touch. You and Gerry Harvey and all the others need to take a dose of reality and just see what's happening in the outside world."

In its survey of online shoppers, Choice found that the main reasons people shopped online were to do with convenience, price being a secondary consideration. Online shoppers can shop at times that suit them, and can have products delivered to their door, rather than enduring the experience of dealing with bricks-and-mortar retailers.

The dominance of books, DVDs and clothing in online purchases points to a particular shortcoming in Australian retailing – a failure to hold adequate stock. For all three categories people seek specific items, and don't want their choice limited by the offerings of retailers, who often seem to consider stock as tied up capital rather than as a convenience for customers. "We can get one in for you in a few days" is the usual fallback.

The Productivity Commission found that many consumers were buying from overseas online suppliers because Australian manufacturers and distributors, in agreements to protect traditional marketing arrangements, were refusing to develop local online systems.

The shift to online shopping is about far more than convenience or price. It's about a completely changed business model. The traditional model is what marketers call "supply push". The retailer decides what products to provide and promote, and spends copious amounts on advertising in order to attract customers. By contrast online purchasing, particularly when supported by search engines and customer reviews, is what marketers call "demand pull", where the customer has sovereignty.

That’s a huge disruptive threat to the industry – a complete change not just in the physical way business is carried out, but also in the relationships between companies and their customers. The general pattern of disruptive changes is that the established players cannot cope – they are too legacy-bound. New firms emerge to take their place. And the disruptions in retailing extend to other parties – landlords, TV networks dependent on advertising, and trade unions in retailing and transport.

It is no surprise then that retailers are advocating the collection of GST in ways which impose maximum inconvenience on customers – the current equivalent of prohibitive tariffs in times past. One proposal on the table is the UK model, which imposes a processing charge of £8 (around $14) on low-value imports.

If this scheme were adopted in Australia a $50 purchase, for example, would incur a $19 charge, equivalent to a tariff of 38 per cent, of which only $5 would make it to net public revenue. There would be additional costs imposed on consumers who would have to travel to post offices or parcel depots to pick up their purchases and to make payments, thus negating one of the clear advantages of online shopping.

There is no practical way to collect GST on all low-cost imports. Even a system that captured all parcels, for example, would be circumvented by travellers, who would revert to the practice, common in the days of high tariffs, of returning with suitcases bulging with "slightly worn" clothes.

Closing a GST loophole should not be done in a way that helps shelter a poorly performing industry from structural change. Instead, perhaps established foreign suppliers such as Amazon could collect GST as part of their invoicing and periodically remit the proceeds to the Australian Government.

It’s hard to guess what the Commonwealth Government’s reactions will be to proposals to collect GST. It would be reasonable to believe that a right-of-centre government would be in favour of keeping the compliance costs of taxation low, and allowing market forces rather than protectionist intervention to shape the retail industry’s fortunes. The Liberal Party platform certainly has the right words such as “consumer choice” and “enterprise”.

But on competition the Liberal Party has a poor track record. The 23 years of Coalition government up to 1972 saw tariffs increase, a permissive attitude to price-fixing and other restrictive trade practices — all imposing high costs on consumers. The Whitlam government had a huge struggle against the Coalition in passing effective trade practices legislation.

The Abbott Government, with its hostility to market mechanisms for CO_2 emissions, its support for subsidies to health insurers and car leasing companies, and its intervention to block the GrainCorp takeover, is reverting to form. Its decision to scrap high-speed internet suggests its concern is to preserve traditional ways of doing business. This government’s “business friendly” attitude is really about protecting existing firms and businesses from structural change. We'd better make our purchases online sooner rather than later.