



# FIJI LABOUR PARTY

## Annual Delegates Conference 2024

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### The Failed Promise – The Cost of Living

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#### Introduction

Reducing the cost of living was a common theme that political parties debated in the lead up to the 2022 elections. The Coalition parties emphasised that they would reduce the cost of living. For years in opposition, they protested over the rising cost of living under the Fiji First government. Yet, the Minister of Finance, in his first budget (2023/2024) instigated an increase in VAT from 9% to 15%. Raising VAT is a definitive way to increase prices and the cost of living, which was contrary to their pre-election promises. The explanation for this irrational tax increase was that the extra revenue generated was needed to pay government debt and that there were no other taxes that could be justifiably increased.

What has transpired is firstly, the increase in revenue was much less than what was anticipated. Secondly, raising VAT has indisputably increased inflation no matter how the government may try to justify that inflation has been caused by other factors out of its control. In fact, the RBF announced that Fiji's annual inflation rate to April 2024 had risen to 7.1% – the highest observed in the past ten years – and that VAT had played a large part in the hike. This inflation has constrained the domestic economy, negatively impacted small businesses and slowed down economic growth. Thirdly, government debt has continued to rise unabated. And finally, the tax burden has been passed to middle- and low-income earners and away from the wealthy.

#### Lower than anticipated VAT revenue

Despite the budget projections of \$450m from boosting VAT, the figure is now regarded to be under \$300m. However, the net gain in VAT revenue is even less if you take into account that the government themselves have had to pay this increase in VAT on their budgetary expenses. The increase in VAT payments for government expenses in the 2023/2024 budget was \$70m more than the previous budget. Furthermore, the consequential rise in the cost of living has motivated the unions to fight for increased civil

service wages, further eating into the extra revenue received from raising VAT. \$85m was included in the operational budget for increased pay for civil servants. Yet, even this figure was regarded as insufficient by the teachers and nurses' unions who were demanding more which will have to be a consideration for the next budget. Therefore, taking in consideration the extra VAT costs to the government and the increase in the operational budget due to pay rises, the net revenue gain achieved from the increase in VAT was around \$145m, far less than what was expected.

### Impact on the economy

The under anticipated figure also demonstrates that the economy has under performed, especially in terms of consumption. This has affected businesses in terms of less consumer activity to buy their goods and also because businesses themselves have reduced their consumption due to increased costs which have hampered their economic activity. It would follow that the inflation caused by the increase in VAT has likely constricted and impeded the economy, further limiting the purchasing power of those already struggling with the cost of living, including business. It could be argued that if VAT had not been increased, the economy would have been in a better position. Not only would the economy have been better off, but government revenue would have increased sufficiently through other taxes as a result of a more buoyant economy.

### Continuing debt crisis

Despite the rhetoric that increasing VAT was paramount to tackling Fiji's debt crisis, debt continues to rise. In 2023/2024, new debt was over a billion dollars and the outstanding debt stock rose to over ten billion dollars. Yet, the Minister of Finance is claiming that debt has decreased, referencing the debt to GDP ratio having gone down from about 90% to about 80%. The ratio has gone down, not because nominal debt has decreased, but because GDP has increased. However, it is argued that GDP has increased through the very inflation created by the increase in VAT and not through output generated by an active economy. While this may have some relevance to local debt in Fijian dollars being inflated away, it does not bear relevance to foreign debt which continues to grow and incur large interest payments which will have to be paid back in foreign currencies. The debt crisis is getting worse not better.

### VAT unduly taxes those on lower incomes

Despite government advisory groups attempting to insinuate that an increase in VAT would resemble a bit of a Robin Hood scenario – i.e., taking from the rich to pay the poor. The reality is that the increase in VAT has largely impacted the purchasing power of the poor which has caused hardship to many families around Fiji.

The increase in the welfare budget and the slight increase in minimum wage have not compensated for the rise in the cost of living. Furthermore, making some items zero VAT has also not meaningfully alleviated the negative impact of inflation on the poor, because firstly, the poor consume more than just the zero-VAT items and secondly, some zero-VAT items themselves have increased in price due to the pervasive inflation throughout the broader economy.

### Alternate tax solutions

If the government was intent on tax policy that had less impact on the poor, they could have applied taxes that targeted areas of the economy that were better equipped to shoulder an increased tax burden. The government could have boosted their revenue substantially through effective tax policy which would have resulted in a much more vibrant economy without the undue inflation. For example, the reintroduction of the Service Turnover Tax would shift the economy slightly away from its heavy reliance on services and would contribute about \$120m to \$150m. The justified removal of corporate tax exemptions and holidays would earn the government another \$100m to \$120m. Increasing duty on non-essential imports could create up to \$100m in extra revenue. The reinstating of Stamp duty would provide another \$60m to \$80m. Finally, a progressive income tax where higher tax brackets would progressively pay more tax, and a dividends tax could generate tens of millions of dollars in extra government revenue. These taxes would have generated additional revenue without causing widespread inflation and increasing the cost of living.

### Conclusion

Increasing VAT was an underhanded act by the government. Having promised to reduce the cost of living, they did the opposite and increased VAT. Taxes that source revenue from those with greater privilege, such as a dividends tax, were not raised. The justification for raising VAT to pay down the debt is unsubstantiated as debt continues to rise. Furthermore, the net gain in government revenue from the increase in VAT has been minimal, if not negative, against the inflation it has created and its damaging impact on the economy and the lives of the country's poor, which has been immeasurable.