



BROTHERHOOD
of St LAURENCE



*Tax reform:
the missing
dimension*

Social tracts for our times

No.2



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Clive Hamilton

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Clive Hamilton is Executive Director of The Australia Institute, a Canberra-based public policy research centre. He is also a Visiting Fellow in the Public Policy Program at the Australian National University and an Adjunct Professor at the University of Technology, Sydney.

His previous positions include Head of Research at the Federal Government's Resource Assessment Commission, Senior Economist at the Bureau of Industry Economics and Director of the Graduate Program in the Economics of Development at the ANU. He has also worked in Indonesia, South Africa, Nepal and South Korea.

The Australia Institute has published several papers on tax reform with a special emphasis on the environmental implications. Details of the Institute and its work may be found on its web page at www.tai.org.au.

Social tracts for our times

Introduction

We Australians are experiencing profound economic and social changes the likes of which we have not had since the Second World War. We are seeing the rise and persistence of chronic unemployment; the disappearance of many manufacturing industries; an increase in poverty as our national wealth continues to grow; greater inequality of opportunity as well as wealth and a move by governments on both sides of politics to reduce their involvement in and support for education, health and housing.

These changes cause insecurity not only amongst those adversely affected. People understandably wonder: "where is it all going to end up?" The Brotherhood of St Laurence (BSL) is renowned for its social critique and social policies that have resulted from the work of its research unit, known as Social Action and Research. It has 40 years of experience and knowledge gained from researching into poverty and the impact of public policies upon people on the margins of society.

The BSL continues to affirm its Christian foundations in two ways. Firstly, by recalling the lives and work of its founder, Fr Gerard Tucker, and his colleagues who in 1930 formed a religious brotherhood. In addition he fostered an activist model of social change, connecting rich and poor, young and old, powerful and powerless. These Anglican men and women were inspired and empowered to work with the poor people of Fitzroy in campaigns to correct social injustices and advocate social reform. Their common bond, as well as their source of strength, was their belief in Jesus the Christ. That tradition is still active in its life today.

Secondly, this Christian foundation and outlook requires the BSL to evaluate current social conditions and attitudes in terms of the Christian Gospel. Tucker in his colourful "BSL Notes" did not hesitate to do so. Given today's critical times, the BSL should do likewise now.

Therefore, I will publish from time to time these *Social tracts for our times*. The title comes from another famous Anglican priest, Frederick Denison Maurice, who throughout his life explored the social and practical implications of the key Christian doctrine that Jesus was the incarnation of God. There have been notable Australian clergy of a similar outlook - Ernest Burgmann (Bishop of Canberra and Goulburn 1934-1961) and Geoffrey Sambell (Executive Director BSL 1954-1969, Archbishop of Perth 1969-1979).

In so doing, the BSL actively seeks to engage in conversation people who are similarly committed to shaping a more compassionate and just society through effective policies and structures, but who do so on the basis of other religious or non-religious connections and outlooks. We affirm their contribution and look for the possibilities of mutual support and co-operative action.

These *Social tracts for our times* will focus on a particular issue. The pamphlet will consider the issue at both a pragmatic and philosophical level. This second one seeks to explore some of the values embedded in the debates surrounding the Tax Reform Package.

Through this tract and its successors, the BSL desires to stimulate both public debate and private conversations on those pressing questions of social purpose and values which we Australians have largely avoided.

Having read this tract, please pass it on.



Bishop Michael Challen
Executive Director
Brotherhood of St Laurence

Tax reform: the missing dimension

Introduction

Tax! – income, indirect, wholesale, payroll, excise, luxury, departure, capital, import, debit, financial institutions, land et cetera – they are many and varied. They impact upon us no matter what we do or where we go.

It is no wonder that for over 20 years our governments have wanted to make the gathering of taxes transparent to the taxpayer, easier to administer and fairer to all, while at the same time being sufficient for them to do, what we citizens require of them.

Significantly, it was the joint summit on tax initiated by the Australian Chamber of Commerce and Industry and the Australian Council of Social Service in October 1996 that gave a renewed impetus to proceeding with tax reform.

Subsequently the present Federal Government made tax reform a major plank in their campaign, which led to their re-election in 1998. A key element (but not the only element) of their proposed “tax package” was a goods and services tax or “GST”. This development is necessary since a growing proportion of the nation’s wealth is being generated by services. While various groups have analysed it and responded in terms of their own self-interest, there was also an increased acknowledgment that the GST favours those who have greater discretionary income and that it is inherently unjust. Furthermore, any compensation arrangement for low-income people is politically vulnerable. Therefore a growing number of people in the community concluded that certain food items should be exempted to make the tax more just.

The public debate has clearly uncovered some of the values and perhaps beliefs that we Australians hold dear. These are not necessarily coherently integrated but rather held in tension. Some of these values are – personal advancement and reward,

personal responsibility, personal freedom and yet helping those who are less fortunate, adequate and effective social structures (such as defence, transport, education, health) and economic development.

Where a particular person stands on or upholds such values is frequently shaped by his or her experience of life, belief systems and position in society. But people who have embraced either the Jewish or Christian view of life and history, bring to this tax debate a special view of what it is to be a human being.

Both religions place much emphasis on the significance of the individual person, being made in the image of God, and they both perceive that each person at the same time is being invited by God to build a community based upon shared origin and nature. For Jesus and for Christians, God is a Social God who is actively fostering connectedness between people and communities. He shares this task with all people, expecting them to use their personal gifts, position in society and opportunities in life to that end.

Within our complex modern society, our inescapable connectedness with one another is expressed, not so much through face to face relationships, but through indirect 'social structures', such as the public provision of affordable and sound housing, free quality education, employment, adequate universal health services, accessible public transport and communication for all, as well as a society which justly ordered and protected. These social institutions need to be funded adequately and with certainty. To that end we are expected to share our income, with others, through a tax regime. In this sense, tax can be rightly characterised, as love at a distance. The corollary of this characterisation is that tax evasion is a denial of our true humanity.

This process of tax reform is a wonderful opportunity to further Australia as a faithful nation. Hopefully both the goal and means of taxation will make us a stable, strong, supportive and compassionate society, which affirms and promotes the well being of each of its citizens.



Bishop Michael Challen
Executive Director
Brotherhood of St Laurence

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The Brotherhood is grateful for the cartoons provided by Age cartoonist Ron Tandberg and wishes to acknowledge his contribution and that of The Age newspaper.

Summary

Support for a strong tax system has always been present in Australia, despite attempts by conservative political forces to undermine the legitimacy of taxation as such. Survey evidence and common observation indicate that the willingness to pay higher taxes depends on two conditions:

- that the revenue is spent on services that tax payers value; and
- that everyone pays their fair share.

Taxes are a way of redressing, albeit imperfectly, the unequal distribution of privilege. This is why reports of tax avoidance and tax evasion - which are separated less in the public mind than in the tax lawyers' manuals - evince such enormous antipathy from the general public.

Just as low crime rates are the result not of the fear of being penalised but of the belief that crime is wrong, the tax system depends heavily on voluntary compliance. Nothing could be more corrosive of the social basis of modern society than the spread of the belief that there is no moral obligation to pay one's taxes.

The philosophy of justice constitutes 'the moral basis for a democratic society'. A just distribution of income depends not only on the distribution itself but on perceptions of what different groups deserve, in other words, on their history. The conservative critique of the 'black armband view of history' has the effect of eroding the community's belief that Indigenous Australians are deserving of special support.

Most people recognise that the right to keep the fruits of one's labour must be tempered by the obligation to contribute to collective provision of goods and services and the institutions of civilised society, although the entitlement to speculative profits is less strong than the entitlement to the returns from one's labour.

The official tax debate in Australia has been dominated by utilitarian ideas that stand in sharp contrast to popular notions of fairness. The importance in the tax debate given to the results of economic models, which are utilitarian calculating machines *par excellence*, is an affirmation of the way in which justice is measured by money.

The emphasis on changes in absolute income levels as a result of the GST tax changes has obscured a much more significant determinant of social well-being. Non-utilitarian philosophy, as well as a large body of empirical evidence, tells us that subjective well-being depends more on relative incomes than on absolute incomes. A number of studies have shown that what really affects perceived well-being is where one stands relative to others.

It is well-established that wealthier households will receive the greatest share of the benefits of the GST package, benefits which are demonstrably not due to any efficiency dividend but to a budget surplus accumulated over the last three years as a result of cuts to services which tend to favour low and middle-income households. The Government's political strategy to win sufficient support for the package to pass through the Senate was not to improve equity but to neutralise opposition by providing just enough compensation to groups that would otherwise be worse off. Given the tiny economic benefits of the GST package, it is difficult to avoid the conclusion that the introduction of the GST itself is little more than a cover for a substantial reallocation of the national income to wealthy households.

If perceptions of fairness based on relative positions have a greater influence on social well-being than absolute levels of income, then Australia will be a more unhappy nation as a result of the GST package, even if food has been exempted, compensation has been increased and tax cuts for the wealthy have been pared back. The GST package will only confirm and reinforce the perception that we are becoming a less fair society.

In recent years, the belief that benefit recipients deserve support has come under attack on three counts - perceptions of cheating, bludging and welfare dependency. Whether intended or not, the lasting impact of media stories that characterise unemployed youth as layabouts - such as the public flogging of the Paxton family - is to erode confidence in the social security system as whole, to harden hearts

against the victims of social disadvantage, and to undermine social cohesion.

While most of the tax debate has been over the distribution of financial impacts, the tax system also has a highly symbolic function. The system of taxation and public spending is one of the principal means by which individuals and households participate in the wider society. Paying taxes gives us a stake in society.

It is difficult to avoid the conclusion that in recent years the tax debate in Australia has been marked by an appalling failure of political leadership, on all sides of politics. While the Australian Taxation Office has been willing to declare that tax payers have a *duty* to contribute as citizens, politicians have refused to take up the moral case for a fairer tax system, despite the overwhelming public support for it. Clear and forceful moral statements about tax avoidance are rare. Mindful of where the power lies, political leaders have been far more willing to tackle 'dole bludging' by the poor rather than tax shirking by the rich.

The GST package will result in a less fair tax system in Australia, and the argument that the GST will at least ensure revenue adequacy has force only because political leaders have not had the courage to put the moral arguments for a fair and comprehensive system of direct taxes, including taxes on incomes, capital gains, wealth and inheritance.

Mankind are capable of a far greater amount of public spirit than the present age is accustomed to suppose possible. History bears witness to the success with which large bodies of human beings may be trained to feel the public interest their own.

John Stuart Mill¹

1. Public attitudes to taxation

Writing in the middle of the 19th century, John Stuart Mill's observation proved prescient. The emergence of the system of income taxation and the welfare payments after the Second World War reflected a surge of public spiritedness, following the misery visited on blameless workers by the Depression and the accumulation of social obligations to those who fought in the War. It is now widely believed that the era of neo-liberalism (known in Australia as economic rationalism) has seen a waning over the last two decades of public spiritedness and a retreat from the belief, especially on the part of wealthier Australians, that the public interest is their own. The recent tax debate has been significant not least because of the reassertion by the churches and the welfare sector of an older worldview, one that places the interests of a community of social beings before those of an aggregation of individuals.

The much-heralded 'tax revolt' of the 1980s - in which middle class taxpayers were said to resent paying high taxes to support bloated bureaucracies and unnecessary welfare programs - appeared to mark a historic shift in attitudes. While George Bush is remembered for declaring 'Read my lips: no new taxes' and John Howard went to an election in 1987 promising to cut taxes because they were an unfair impost on ordinary Australians, the tax revolt was more a conservative political rallying cry than a true reflection of popular sentiment. To the extent that there was disillusionment with the tax system it was a product of widespread perceptions of unfairness and tax avoidance to the point where paying tax appeared to be optional for the rich. Support for a strong tax system has always been present, despite the attempts by neo-liberals to undermine the legitimacy of taxation as such.

Suspicion of the rich is powerfully reinforced by media reports of audacious tax avoidance and tax evasion by the wealthy, made possible by the employment of

clever but 'unscrupulous' lawyers and accountants. The popular view of the rich was confirmed by Leona Helmsley, a New York property developer arraigned on tax evasion charges, who said, in a statement widely reported in 1989:

Only the little people pay taxes.

These words, spoken to her housekeeper, found their way into the Oxford Book of Quotations not because they were a pithy comment on a popular belief about the incidence of taxation, but because they confirmed in the public mind the contempt with which the wealthy seem to view their obligations to society. Helmsley was saying both that the rich could avoid taxes if they chose to and that it was simply in the order of things to do so, and therefore beyond moral condemnation. Some faith was restored in the tax system when Helmsley was sentenced to four years in jail.

Shades of the Helmsley philosophy were present at the 1996 Tax Reform Summit organised jointly by the peak employer body, ACCI, and the peak welfare organisation, ACOSS. One delegate was unashamed to declare:

Anyone who does not minimise their tax payments is an idiot.

This statement came from the national director of the curiously named Australian Taxpayers' Association. While few would criticize tax payers who claim all reasonable deductions allowable under the law, the sort of aggressive 'tax planning' seemingly endorsed by this statement is seen by many as corrosive of the moral underpinnings of the system of taxation and public spending, and therefore of civilised society.² In other words, wealthy people sometimes pursue tax strategies that are contrary to the intent of the tax laws and pay less tax than society, through its tax laws, expects them to pay.

The same person also expressed the ultra-libertarian view that 'tax is the confiscation of privately owned assets or property'. 'Confiscation' means to seize by force, and use of the word is meant to convey the impression that while taxation may be legal it is morally illegitimate. The belief that taxation is theft is premised on a deep hostility to government as such, a neo-liberal viewpoint legitimised by writers such as von Hayek and Milton Friedman (both of whom received the Nobel Prize for economics) and articulated more recently in Australia by the Coalition

Government's National Commission of Audit in 1996.

Aggressive but legal tax planning incites popular ire not least because it reflects and promotes anti-social attitudes to the tax and spending system in general and therefore undermines public confidence in the public sector. Stories about tax minimisation promote the belief that, since the wealthy contrive to avoid paying their fair share of the tax burden, the obligation on less wealthy people is diminished. Just as low crime rates are the result not of the fear of being penalised but of the belief that crime is wrong, the tax system depends heavily on voluntary compliance. Nothing could be more corrosive of the social basis of modern society than the spread of the belief that there is no moral obligation to pay one's taxes.

It was not difficult to perceive in the proceedings of the ACCI-ACOSS Tax Reform Summit that there was a sharp divergence between the private attitudes of many delegates (especially some of those associated with the business community) and the views they were willing to express publicly (with the exception noted above). The central importance of the principle of equity in the tax system was never questioned in public, but was frequently given short shrift in private, either by simply being ignored or by explicit arguments about the unfairness of expropriating the rich.

The divide between private and public morality was brought sharply to the attention of the Tax Summit by an intervention from the floor by one business delegate. He said that business people need to separate concerns for their personal income from what is good for business. In particular, capital gains and wealth taxes may not be good for their personal incomes, but getting a package of tax reforms that included capital gains and wealth taxes would be good for business and good for the nation.

There is, then, a politically correct view of what the tax system ought to achieve, a form of political correctness the Coalition Government has not challenged. What then do the Australian public feel about the tax system? In what is perhaps the most reliable guide to public attitudes to taxation and public expenditure, a survey by the Economic Planning Advisory Commission in 1994 unambiguously dispatched the oft-repeated view that Australians do not like paying tax and want to pay less of it.³ EPAC found that '[t]here is substantial support for increased government expenditure', especially in the areas of the environment, roads,

education and police. Around 80% of respondents expressed a willingness to pay more taxes. The EPAC evidence combined with common observation suggests that the willingness to pay taxes, including higher taxes, is contingent upon two factors:

- that the revenue is spent on services the tax payers value; and
- that everyone pays their fair share.

This is why issues of justice in the tax system cannot be separated from issues of fairness in the structure of public spending. EPAC's essential conclusion bears repeating because it stands in such stark contrast to the views of conservatives about taxation and public spending:

It is worth noting that our results did not reveal any overall desire on the part of the community to reduce their own tax bill in exchange for a reduced level of government service provision. It appears that consumers are aware of the need for collective provision of certain goods and services, and that they understand that the quality and level of provision of such goods and services depends on the direct and indirect tax contributions of all citizens.⁴

These conclusions were largely confirmed by an opinion survey carried out by Irving Saulwick and reported in a paper to the ACCI-ACOSS summit.⁵ Saulwick established that tax cuts are not a high priority for most people, and that 'a predisposition to abhor taxes is not a characteristic of Australians'. He also found that attitudes to tax cheats have hardened somewhat over the years. While in 1972 20% agreed that it is 'all right to understate your income when filling in your Tax Return', only 16% agreed in 1985. Tax cheating, concluded Saulwick, 'is not a popular or socially accepted sport in Australia' and 90% of Australians believe that people who are avoiding tax should be reported to the authorities.⁶

Saulwick concluded that for tax reform to be acceptable to the general public it must be equitable and be seen to be equitable for ordinary citizens; it must not allow privileged groups to subvert it; and it should allow the underprivileged some security and dignity. These conclusions need to be kept firmly in mind when assessing the effect on community well-being of the Coalition's GST Package.

Clearly, public attitudes to the system of taxation and public spending are based first and foremost on ethical principles.

2. Distributive justice

In recent contributions stimulated by the public debate over tax reform, a number of churches have identified the principle of distributive justice as the most important criterion by which to judge the GST package⁷ perhaps reflecting the view of John Rawls that the philosophy of justice constitutes 'the moral basis for a democratic society'.⁸ Most Australians have a vague sense of the fairness or otherwise of the current distribution - or perceived distribution - of income and wealth and judge government decisions on both taxation and spending by their expected effects on distribution.

Just deserts

Distributive justice is generally interpreted to mean that taxation levels should reflect 'ability to pay'. But on what basis is it regarded as ethically appropriate to tax wealthier people more heavily? The usual argument, dating at least from the time of Adam Smith and set out clearly by John Stuart Mill, among others, relies on some notion of diminishing marginal utility. A rich person derives less benefit from the last dollar of income than the poor person, and so one can take more dollars from the rich than the poor with the same effect on well-being. J. S. Mill wrote: 'Equality of taxation ... means equality of sacrifice' and each person should contribute a portion of income so that each person 'feels neither more nor less inconvenience'. Conscious of the potential effects of taxation on incentives, Mill added the caveat that the tax structure should not 'relieve the prodigal at the expense of the prudent'.⁹

But these well-crafted utilitarian arguments are perhaps overshadowed in the popular mind by a belief that the rich deserve to pay more simply because they are privileged. High taxes are a way of redressing, albeit imperfectly, the unequal distribution of privilege. This is why reports of tax avoidance and tax evasion - which are separated less in the public mind than in the tax lawyers' manuals -

evinced such enormous antipathy from the general public which sees them as the use of privilege to escape society's attempts to counter the imbalance of privilege.

In his influential 1974 treatise *Anarchy, State and Utopia*, Robert Nozick argues that most people do not believe that redistribution of income through the tax and social security systems should be based simply on some notion of what is a just distribution.¹⁰ A fair allocation of income should depend also on what different groups *deserve*, in other words on some understanding of how they got to where they are. This principle applies both to those from whom money is to be taken and those who are to receive it. To illustrate, few would hesitate to take property away from a drug dealer or a corporate criminal. A more difficult question is how much it is valid to take from those who have acquired wealth legitimately.¹¹ We frequently see statements along the lines that the richest 10% control 50% of Australia's wealth and the poorest 10% control only 1%. The deployment of such facts in public debate relies on the presupposition that most people will see them as a sign of something deeply unfair in society. That statistics such as this one resonate as political devices reflects a deep-seated belief among many Australians that the 'system' (which may be the economic system, the political system, or some interaction of the two) results in some groups acquiring more than they are entitled to and others receiving less.

But, as Nozick points out, we can form no judgment about the justice of this distribution without having some beliefs about how it came about and the entitlements of social groups to their shares. Thus the notion of equity, or distributive justice, in the tax debate varies among groups depending, among other things, on their perceptions of the extent to which the poor, or different segments of the poor, deserve to be assisted by way of public services and welfare payments (that are worth more than the taxes they pay). There is widespread agreement, for instance, that support should be provided to the 'Aussie battler'. Although the term may conjure varying images, it seems to refer to that group of Australians who have low-incomes, are hard working or eager to work, and who are in difficulties through no fault of their own. The notion grew especially out of the indiscriminate impoverishment visited on many families by the Depression.

Who else is seen to be deserving? While most would agree that people with disabilities are deserving, there is much more community dissension over the extent

to which unemployed youth and single mothers deserve support. Attitudes are influenced by social changes, by personal experiences (those with an unemployed youth in the family are more likely to understand the difficulties of obtaining employment) and popular prejudice (such as the periodic vilification of single mothers for irresponsibly having children in order to live off welfare).

On the other hand, families are seen by many as deserving of special consideration because of the financial burden of raising children. This is an extension of the notion of equality of sacrifice which implies that only the surplus above the cost of the necessities of life should be subject to taxation, although the principle is tempered in the minds of many by disapproval of families that have 'too many' children thereby placing an unfair burden on society or the environment.

The issue of tax and families is complicated further by the belief, common among conservatives, that families are more deserving of support than households without children because 'families' - households with two (and, reluctantly, one) parents with at least one child under 18 - provide a broad social benefit as centres of love and nurturing. It is not explained why providing more income or lower taxes for families will induce them to provide more of these social benefits, except for the occasional inference that lower incomes contribute to 'family breakdown'. The rationale is probably less formal - since families are associated with warm feelings, at least in the abstract, they deserve to receive support.

Personal effort

Another essential dimension to popular perceptions of distributional fairness is the view that people have an entitlement (although not an absolute one) to what they have earned through their own efforts. The libertarian right takes this position to the confiscatory extreme. Nozick has written: 'Taxation of earnings from labor is on a par with forced labour'.¹² This view of the world begins from the belief that government is an alien and hostile force, rather than the expression of the citizenry acting collectively.¹³ But if a group of free agents decide collectively to pool part of their earnings in order to provide for a public good (such as defence or street lighting) why should this be regarded as forced labour? Most people recognise that the 'right' to keep the fruits of one's labour must be tempered by the obligation to contribute to collective provision of goods and services and the institutions of

civilised society.

One might argue that if one person objects to this collective provision then they are being forced to labour more than they otherwise would. Perhaps so, but we do not decry the fact that we compel everyone not to drop their litter even though one person might not value a tidy street and object to being forced, on pain of a fine, to walk the extra distance to the nearest rubbish bin.

The entitlement argument is most widely accepted when the 'efforts' in question refer to personal labour or hard work, but attracts less support when the effort is in investment of wealth. Investment is more likely to be viewed sympathetically if it is productive and socially useful, and less likely to be endorsed if it is speculative. A rich person who has worked hard for 20 years to build a fortune deserves more to keep it than someone equally rich but who became wealthy in a property boom, even though both sources of wealth are entirely legal. The entitlement to speculative profits is less strong than the entitlement to the fruits of one's labour.

It is this principle that underpins calls for special taxes on speculative activity.¹⁴ While the argument for the economic desirability of taxing financial transfers dominates the debate, most people feel that speculators ought to be penalised as well as discouraged. However, the principle of taxing unearned wealth was seriously breached in Australia when inheritance taxes were abolished in the late 1970s.¹⁵ A further ethical principle may be introduced here: while most people would not think it fair for children with rich parents to become millionaires by accident of birth, most would also agree that a relatively small inheritance (say, up to \$100,000) is a lucky windfall for an ordinary person which will not change their status and ought not to be taxed.

Equality of opportunity

The popular legitimacy of incomes that have been earned through labour provides the moral basis for the shift in recent times in thinking about equality, away from equality of outcomes (that is, the equalisation of incomes and wealth) to the equality of opportunities, most notably through access to education. The centrist political ideology known as the 'third way' has accepted this redefinition of the idea of equality¹⁶ and in so doing has resolved a philosophical and political dilemma: attempts at redistribution are constantly undermined by the activities of economic

agents pursuing their own interests.¹⁷ Since redistribution requires compulsory acquisition, 'confiscation' in some people's view, a fairer distribution requires some curtailment of individual liberties. The new emphasis on equality of opportunity partially, and conveniently, escapes this dilemma by attempting to eliminate the need for some redistribution. To the extent that opportunities are equalised, continued poverty can no longer be blamed on social disadvantage, and this fact diminishes some of the entitlement of the poor to public support.

It is this argument above all that reveals the inherent conservatism of the third way. The replacement of equality of outcome with equality of opportunity to attain outcomes reverts to a pre-War conservative political belief system. Not only does it absolve government and society from some of the responsibility for unfair outcomes, but it is in itself unfair. Giving full opportunity to everyone cannot resolve differences in abilities, both natural and socially constructed, as sources of income inequality. It is ethically appropriate for those fortunate enough to be born with natural gifts, or to be born into households that can provide a suitable environment for the flourishing of talents, to contribute more to public revenue.

In Australia, the moral force of the argument for equality of opportunity has been felt most strongly in the case of Indigenous people. Historically, Indigenous people have been so severely disadvantaged that additional support has been seen as not only necessary to overcome the effects of that disadvantage but as warranted by way of compensation for past wrongs. However, we are now starting to see a challenge to this view, most stridently from the Hansonites but more effectively from within the Coalition Government. Once adequate compensatory measures are in place, historical disadvantage can be used as a justification for only so long. If, after a time, the need for special funding has not been eliminated then the justification for additional support evaporates, either because the programs are not working and the money is being wasted or because the recipients are not trying hard enough to build on special support and therefore do not deserve it. Perhaps the crucial difference between progressives and conservatives lies in perceptions about how long is likely to be required for the programs to be effective.

The attempts by conservatives to reinterpret the history of white settlement in Australia - through the repudiation of the 'black arm-band' view of history and

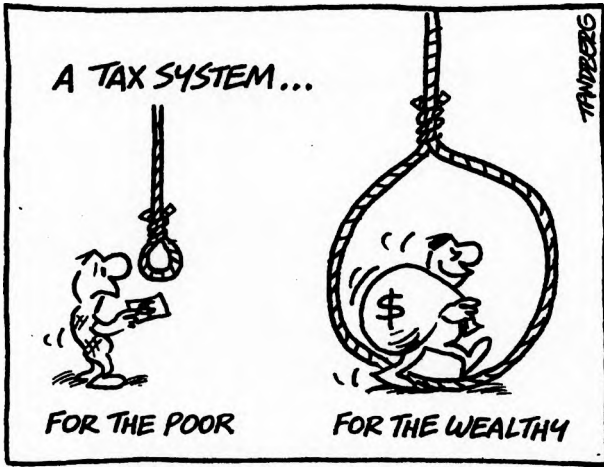
claims that many of the stolen generation received a better education than they would have with their natural families - are aimed at diluting the entitlements that the community believes Indigenous people deserve. Two additional forces have further undermined public support for Indigenous entitlements. The first is the campaign to persuade the community that public funds administered by ATSIC are being wasted by Indigenous bodies that refuse to be accountable. The second is the argument that public programs for Indigenous people have created a crippling welfare dependency that has undermined the incentives, social structures and dignity of Aboriginal and Torres Strait Islander people. This view, for a long time propagated by the populist right, has recently been endorsed by some Aboriginal leaders, notably Noel Pearson, albeit on the basis of a very different set of sympathies, priorities and ends.

Fiddling at the edges

Of course, the notion of fairness in the tax system always operates at the margin of changes to the tax system. While each proposed change to the tax system is judged to be fair or unfair, the debate is rarely about the overall fairness of the distribution of income and wealth. As a result, an enormous amount of effort and anxiety can be expended on changes to the tax system that will have a very limited effect on the overall distribution of income and wealth at a time when market forces (perhaps aided by policies such as labour market deregulation) are bringing about a sharp worsening of distribution. This is indeed what has been happening in Australia.¹⁸ It is as if the sense of impotent anger at how the economy is creating a more unequal society is channelled into relatively trivial changes where expression of outrage may have some impact.

This discussion of the historical element of distributive justice leads to a consideration of how different social groups perceive the entitlements of others and themselves. The role of the middle classes is particularly important in this regard, because they provide the bulk of tax revenue. The evidence indicates that the middle classes have over the last 20 years or so felt increasingly put upon. Michael Pusey's middle Australia project sheds considerable light on this, showing that middle-income Australians believe that the winners from economic change in recent times are, overwhelmingly, the wealthy and big business.¹⁹ The critical point here is that notions of deservedness, justice and willingness to pay depend

on perceptions, not on actual material circumstances, and that the connection between perception and reality is often tenuous.



3. Taxes as punishment

The moral dimensions of taxation do not end with a discussion of distributive justice. The community recognises other ethical reasons to tax or not to tax. For example, as a variation on the theme of deservedness, special dispensation is often given for income derived from windfalls. Thus lottery winnings and wins at the races are not taxed.²⁰ Underlying this special dispensation is a general belief that everyone deserves a lucky break and ought not be penalised for it. On the other hand, someone for whom winnings from gambling are a principal source of income forgoes special consideration and should be taxed. This is indeed the case: someone who makes a living out of gambling will be taxed on their earnings.

This raises the vexed issue of gambling taxes. State governments have come to rely increasingly on taxes on gambling for revenue, and have reached the point where they must promote gambling in order to maintain their revenue bases. As Julie Smith has argued, this requires the facilitation, and sometimes active promotion, of new forms of gambling designed to keep the jaded gambler hooked.²¹ Many people regard these developments as immoral because, while few object to occasional petty gambling, most recognise that gambling can be addictive. Eighty per cent of gambling expenditure is made by heavy gamblers, and heavy gamblers are disproportionately from low-income households. Thus gambling taxation is very regressive. Smith argues that gambling taxes have allowed State governments to avoid levying more progressive but politically contentious taxes. Since gambling addiction can be extremely destructive, and most gambling is carried out by problem gamblers, it does not seem right to most people for the state to profit from behaviour that is both compulsive and damaging to gamblers and their families.

While taxing the gambling industry is, at best, morally ambivalent, there would be no point, and little moral basis, for taxing the winnings of the average punter, since the average punter will always be a net loser. Given the moral ambivalence of the

community towards the gambling industry, most people probably believe that it ought to be taxed more heavily than other industries and that casinos, as the most exploitative form of gambling, should be taxed most heavily. This raises a new dimension in the ethics of taxation - taxation as punishment.

Punitive taxation is not unknown elsewhere in the tax system. While economists argue that high taxes on tobacco and alcohol are justified on welfare and revenue grounds (because 'inelastic' demand means that consumption and revenue do not fall much as prices rise), public tolerance of these high levels owes more to popular psychology about smoking and drinking. Taxes on these activities are referred to in the tabloids as 'sin taxes'. Although it is well understood that smoking and, for some, drinking are addictive, they are seen as voluntary activities. The prices may be much higher due to taxes but consumers can choose not to buy them. The high prices are thus seen as a form of punishment for weakness.

Taxation of petrol requires a different rationale. Petrol consumption is not regarded as sinful, although this view is changing with increasing awareness of the damage done to the environment from burning fossil fuels. Petrol consumption is heavily taxed (although much less so than in most other countries) and is highly inelastic. It is widely understood that cars require roads and that it is only fair that motorists pay for the roads. There is also a growing acceptance that the external effects of road travel - congestion and environmental damage - should be met by motorists. Thus the notion of 'user pays' is one that is viewed as 'only fair'. This is why governments often 'hypothecate' (earmark) fuel excise increases for road construction and maintenance.

All of this suggests that a system of indirect taxes, although often dismissed simply as 'regressive', may reflect a whole range of ethical values. Julie Smith has argued this in detail by examining the evolution of the wholesale sales tax system in Australia.²² She shows that in designing the sales tax in 1930 the Scullin Labor Government used equity arguments to exclude half of the potential sales tax base. Poor households were to be protected as were those that had additional expenses associated with dependents, disability or ill-health.

Selective commodity taxation, achieved in part through certain exemptions from sales tax, has been a subtle strategy for reflecting social

values about "fair taxation" in Australia's tax system. ... These design features risk being swept away in the quest for the supposed Holy Grail of tax reform in Australia - a single-rate, comprehensive GST.²³

Smith argues that the preference for exempting 'necessities' still prevails in the Australian community and that a robust tax system that is less prone to erosion through special pleading should be based on a broad social consensus.

4. *Ethical arguments in the GST debate*

Ordering the principles

The ACCI/ACOSS tax reform process was of interest not least because any progress depended on agreement between business and the welfare sector on the broad principles on which a tax system should be based. Seven criteria for a good tax system emerged: simplicity, economic efficiency, equity, transparency, low compliance costs, minimal avoidance and revenue adequacy. While any tax system should avoid undue complexity and should be transparent with low compliance costs and minimal avoidance, in terms of their ability to add to welfare or well-being, the big items here are efficiency, equity and adequacy.

On the question of *efficiency*, the economic benefits of tax reform are generally grossly overstated. For some years now we have heard any number of declarations about our tax system being a disaster and severely constraining economic growth. Yet the evidence indicates that the changes embodied in the GST package will make at best a small positive contribution to economic welfare. In their work for the Senate tax reform inquiry, Econtech, the Government's preferred economic modeller, estimated a net addition of \$607 million per annum, around 0.2% of consumption, a minuscule amount by any yardstick, while the Monash model estimated that the package would result in a small decline in welfare.²⁴

Moreover, these estimates applied a very narrow definition of efficiency, excluding, for instance, the inefficiency of a uniform rate of taxation in a world where the external costs of production and consumption vary widely between goods and services. A broader definition of efficiency would also take account of incentive effects where the tax rates interact with the social security system.

In contrast to the efficiency effects of the GST package, a change in *equity* can have a large impact on well-being, especially at a time when there is a widespread

belief that the distribution of income has deteriorated. A Saulwick poll in 1989 concluded that 83% of Australians believe that Australia is becoming a less fair society.²⁵ The welfare gains from redistribution derive from the belief that richer people gain only a small benefit from an extra dollar of income while poorer people gain a larger benefit from an extra dollar of income. In addition, a more equal distribution can improve social welfare by contributing to the sense that we live in a fairer society (a theme to which we will return).

Adequacy can also make a major contribution to national well-being because it permits greater spending in areas where there is a greater need, such as poverty alleviation and basic health care. This has been a key concern of the welfare sector in the GST debate. The apparently regressive nature of the GST needs to be considered against the guaranteed revenue flow from a broad-based consumption tax, revenue that is necessary to protect expenditure flows for welfare services.

Thus in terms of contribution to national well-being, tax reforms should emphasise equity and adequacy above all other criteria, including efficiency. However, it is apparent that the tax changes proposed in the GST Package emphasise efficiency at the expense of equity (although not adequacy).²⁶ The Government's political strategy to win sufficient support for the Package to pass through the Senate was not to improve equity but to neutralise opposition by providing just enough compensation to groups who would otherwise be worse off. Indeed, as has been pointed out on many occasions, wealthier households will receive a far greater share of the benefits of the Package, benefits which are demonstrably not due to any efficiency dividend (\$607 million is not much to go around) but to a budget surplus accumulated over the last three years as a result of cuts to services which tend to favour low and middle-income households. Given the small efficiency gains of the GST Package, it is difficult to avoid the conclusion that the introduction of a GST is a cover for a substantial reallocation of the national income to wealthy households.

Creeping utilitarianism

Despite disagreements over the effect of the GST Package on the real incomes of different groups, the tax debate has by common consent been based squarely on utilitarian principles, with various parties arguing about which set of changes to

tax and social security measures will most improve social welfare. The premise underlying the debate is that the best outcome - what is right - is obtained by achieving the greatest good for the greatest number of Australians. The importance attached to the results of economic models, which are utilitarian calculating machines *par excellence*, is an affirmation of the way in which justice is measured by money.

The utilitarian philosophy that underpins the tax debate has become entrenched in the era of economic rationalism during which the economic has come to dominate all other considerations. In their interventions in the debate, even the churches seem to have accepted that happiness depends on the optimal allocation of worldly goods so that the political objective is to ensure that poor and disadvantaged groups are no worse off.²⁷ While the appeal is to 'fairness' and 'distributive justice', the principal argument in support of them is that the poor will be deprived of adequate levels of sustenance in their absence.

The consequence of the acceptance of the utilitarian ethic is that all of the attention of the tax debate has been on the absolute changes in incomes of various groups and the adequacy of compensation. The central demand of progressive forces, including the Australian Democrats, ACOSS and the churches, was to exempt food from the GST because it is a necessity of life the taxing of which will lower the material living standards of low-income households.

The emphasis on changes in absolute income levels as a result of the tax changes has obscured a much more significant determinant of social well-being. Non-utilitarian philosophy, as well as a large body of empirical evidence, tells us that subjective well-being depends more on relative incomes than on absolute incomes. Empirically, it is now well-established that in rich countries, despite incomes per person increasing three or fourfold since the 1950s, people do not feel any better off. A number of studies have shown that what really affects perceived well-being is where one stands relative to others.²⁸

Contractarian philosophy, as developed by John Rawls for instance, conforms with the common-sense view that perceptions of greater inequality make people feel worse off no matter what their actual levels of income. In the Kantian aphorism: the right is prior to the good. It is worth asking which would be a happier society

of three people: one with incomes of \$16,000, \$20,000 and \$24,000 with an average income of \$20,000, or one with incomes of \$15,000, \$30,000 and \$45,000 with an average income of \$30,000? Of course, the standard economist's answer is that the society with the \$30,000 average could reallocate a couple of thousand to the poorest member so that everyone is better off. But *potential* Pareto optimality, in which the winners *could* compensate the losers and still be better off, but do not, has never satisfied the popular hunger for justice. Moreover, the fact that income *could* be more fairly distributed, but is not (due to the cupidity of the rich), only adds to the sense of social injustice and makes for an unhappier society, even if it is more wealthy overall.

All of this is highly germane to the GST debate because, while the arguments have been over whether any groups will be worse off in absolute terms, it is not disputed that most Australians will be worse off in relative terms. For example, under the Government's original proposal a single income family with two children on \$75,000 per year will receive tax cuts worth \$100 per week while a similar family on \$25,000 will receive only \$11 each week.²⁹ More than half of the promised \$13 billion in tax cuts will go to the top 20% of income earners. Australia will be a more unequal society after the GST tax changes than before.

If the right is prior to the good, and perceptions of fairness based on relative positions have a greater influence on social well-being than absolute levels of income, then Australia will be a more unhappy nation as a result of the GST package, even if food has been exempted, compensation has been increased and tax cuts for the wealthy have been pared back from the original. The GST package will only confirm and reinforce the perception of 83% of Australians that we are becoming a less fair society. This moral critique of the GST Package is strengthened by considerations of deservedness. The public always asks itself whether the people who receive increased income through tax cuts deserve them. It would be difficult to find anyone who believed that a household on \$75,000 per annum deserved an extra \$100 each week or \$5,000 each year.

The more one examines it, the more the GST package as a whole, and especially the changes in income tax rates, appears to be a vehicle for a large redistribution of income from the poor to the rich. Although there has been much debate over whether any groups can be identified that will be worse off, the ability of the

Coalition Government to deliver on its promise that no-one will be worse off depends entirely on the existence of a pot of surplus cash to distribute to those who would be worse off from the GST taken alone. This surplus has accrued over the last three years as a result of cuts to a range of government services, notably employment programs, education and health, most of which would have benefited poorer households and regions.

5. Environmental ethics

The environmental implications of the GST Package received much less public attention than food and compensation. Yet it can be argued that the environmental damage induced by the Package may have equally severe effects on national well-being.³⁰ The Senate Committee inquiring into the environmental impacts of the new tax system endorsed the estimate that at least 65 more people will die each year as a result of increased urban air pollution and traffic accidents as a result of the GST Package, and the estimate that it will increase Australia's greenhouse gas emissions by 5 million tonnes thereby contributing to global climate change with long-term consequences for humans and ecological systems. The ethical aspects of this require some comment.

Environmental ethics has emerged as a branch of philosophy only in the last three decades or so.³¹ While the subject of sophisticated philosophical developments, the essential ideas seem to have sunk into the popular worldview. Principles such as those of biodiversity conservation and intergenerational equity are at the core of many explorations of environmental ethics. The attribution of intrinsic value to non-human creatures, and to ecosystems, places it in sharp contrast to the instrumentalism and anthropocentrism of economics.

Because it will cause environmental damage, the GST Package cannot escape from these concerns, nor from the more traditional social justice issues. Several of the tax changes in the GST Package, and most especially the 33% cut in the price of diesel fuel for heavy vehicles users, will have serious environmental consequences. Rather than tackle the ethical conflicts that these facts give rise to, the Government has simply, and entirely unconvincingly, attempted to deny that the proposed tax changes will have any effect on fuel consumption and atmospheric emissions.³²

Environmental issues are frequently social justice issues as well. It is likely that the deterioration in health arising from increased urban air pollution from higher diesel consumption will disproportionately affect poorer households as they tend to live closer to main roads and in more heavily polluted suburbs. To illustrate this tendency, one study showed that Australian children from households with incomes of less than \$20,000 have higher levels of lead in their blood than children from households with incomes of more than \$20,000. Thus measures that increase lead levels, or fail to reduce them, have a disproportionate impact on the brain development of children from poor families.

In her address to the National Press Club after the release of the Senate Committee's main report on the new tax system, Democrats leader Meg Lees gave public political recognition, perhaps for the first time, to the fact that environmental damage has important implications for social justice,³³ although the final package she agreed to did not do a lot to reduce the damage.³⁴

It is widely recognised in the economics literature that some production and consumption activities impose costs on other people for which they are not compensated. It is both efficient and fair that prices reflect these 'external effects' through the imposition of taxes or other measures on these activities. The fuel price cuts contained in the GST Package contravene this principle since the environmental damage caused by emissions from heavy and business vehicles are being paid for by the general public. This is unjust.

6. Business taxation

Some consideration should be given to the ethical aspects of business taxation since the Federal Government has commissioned a review of it headed by John Ralph. The principal recommendation of the draft report of the Ralph review is to cut the rate of company tax from 36% to 30% and to make up the lost revenue by eliminating some tax concessions, especially the provision for accelerated depreciation which allows companies to reduce their taxable income if they invest in capital equipment or capital works.

Almost all discussions of the ethics of taxation focus on personal income taxes and consumption taxes. The rationale for taxing companies is less clear. In the case of individuals (or households) the ethical basis of taxation is clear: each individual should contribute to public revenue because we all enjoy the benefits of public spending either through social welfare, the provision of 'public goods' such as roads, hospitals and schools, and the less tangible but no less important advantages of living in a civilised society. In the preceding discussion we have seen that ability to pay is the central criterion for determining tax levels and that tax concessions or benefits depend also on what different groups are believed to deserve.

These considerations do not apply to companies which are mere legal entities and are incapable of feeling any benefit or loss. If this were not the case then it would make sense to have a system of progressive taxation for companies based on ability to pay, rather than a flat rate. But since the profits of a company sooner or later accrue to the shareholders who pay, or ought to pay, personal income tax, it is in the tax schedules for individual shareholders where ability to pay becomes a relevant consideration. From this point of view, there is no reason to tax companies at all; their profits should be caught in the personal income tax net when distributed to shareholders.³⁵

On the other hand, companies do enjoy direct benefits from public spending. Studies show that the profits of private companies are increased as a result of public investment in infrastructure such as roads and ports. In addition, companies are given legal protection through the granting of limited liability, so that company taxation is seen as a payment for this privilege.

There is clearly strong public support for taxing businesses. The reasons are not clear, but there appears to be a general belief that companies are centres of wealth and as such deserve to be taxed. In addition, there remains a view, widespread in some segments of the population, that private firms, especially large ones, are inescapably exploitative and socially irresponsible, so that company taxation is a form of punishment. This is not a view confined to a few atavistic socialists, but one that is reinforced in the public mind every time the media report a consumer rip-off, a toxic spill or a mass sacking. While the wealthy and economists are convinced of the undesirability of double taxation, it is unlikely that the general public, had they understood the issue, would have supported the introduction of dividend imputation in 1987.

Company taxation is also seen as a means of spreading the tax net to capture some people who would not otherwise pay their dues. Foreign shareholders are perhaps the most important group; if they make money in Australia it is only fair that they should contribute. The fact that large international corporations can avoid their social responsibilities is a serious moral problem. In the four years to 30 June last year, News Corporation and its subsidiaries world-wide paid only A\$325 million in corporate taxes or about 6% of world-wide pre-tax profits. Most of News Corporation's business activities occur in Australia, the USA and the UK where the corporate tax rates are 36%, 35% and 30% respectively. By comparison another multi-national media empire, Disney, paid 31% of profits in tax.³⁶

In this light, the proposed cut of the company tax rate to 30%, even if it is made revenue neutral by other changes in the company tax structure, will be seen by many in the community as an undeserved concession, one that contributes further to the general perception that the tax system is unfair and becoming more so.

7. Ethics of public spending

In pre-modern times tax collection was the means by which those with political power augmented their wealth. Thus in the New Testament 'tax-gatherers', the agents of the powerful, are bracketed with sinners, and Christ was asked why he ate with them (Matthew 9:9). The answer, of course, was that the tax-gatherers were in special need of redemption. Despite continued demonisation of 'the tax man', modern liberal democratic societies are no longer structured as in Roman Palestine, for tax revenues are used predominantly to benefit the whole citizenry.

It is sometimes argued that in order for the middle classes to continue to support the social security system they should receive some return for their contribution through taxes. This is argued by Anthony Giddens, for instance, in his exposition of the third way.³⁷ Such arguments are based on the belief that the benefit of the social security system lies predominantly in the reallocation of money or the services it buys. However, there are other benefits for individuals from the social security system, notably the benefits of living in a society that is fair, compassionate and cohesive, and even the personal sense that one has made a financial contribution to the well-being of those less fortunate. The latter reasons should not be dismissed as utopian; they are the rationale for voluntary contributions to charities. The emergence of social security systems in Western democracies, especially after the Second World War,³⁸ was based squarely on the argument that a decent society, one worth defending with lives, will not abandon the poor to the uncertain depredations of the market.

In the era of globalisation and economic rationalism the social security system has been put under severe strain. Community support, and especially middle class support, for the social security system is increasingly contingent upon the belief that those who benefit from it are deserving. In recent years, the belief that those in receipt of benefits are deserving has come under attack on three counts - cheating,

bludging and welfare dependency.

A belief that many people are cheating the system and receiving benefits to which they are not entitled has eroded confidence in the social security system. Popular current affairs shows, radio shock jocks and tabloid newspapers have frequently whipped up public alarm, even though the stories are often exaggerated or simply wrong. Single mothers and unemployed youths are the main target. It is notable that in its survey of attitudes to public expenditure, EPAC found that respondents wanted cuts in the areas of family assistance, unemployment benefits and national defence.

The persecution of the Paxton family by Channel 9's 'A Current Affair' was designed to invoke outrage on the part of ordinary hard-working Australians. Whether intended or not, the lasting impact of programs that characterise unemployed youth as layabouts is to erode confidence in the social security system as whole, and to harden hearts against the victims of social disadvantage. The popular antipathy to 'dole bludging' has been exploited by the political right. The notion of the 'genuinely needy' - a category which excludes the Paxton family - has been resurrected by the Coalition's National Commission of Audit and reflects a preoccupation with the disincentive effects of welfare payments and a philosophical preference for *laissez-faire*.³⁹

The third line of attack on the social security system is centred on the phenomenon of welfare dependency. This is a more complex phenomenon, for there is no doubt that imminent starvation concentrates the mind wonderfully. Moreover, there is strong evidence that unemployment over long periods leads to the atrophy of the habits of work, the daily aptitudes that the occupied population rarely reflects upon. Economists even have a name for the phenomenon. Hysteresis is a term used to explain why it is so difficult for the long-term unemployed to gain employment when the economy turns up. The point of this is that it is easy to confuse the fear of work with an unwillingness to work.

In addition, tighter targeting of social security through means testing, combined with lower wages following labour market deregulation, have given rise to very high effective marginal tax rates for those faced with a choice between social security payments and wages from working, especially if they have children. This changes

the nature of the “dole bludgers’ choice: instead of refusing to work and accepting a lower income, the ‘dole bludger’ may be both working and receiving a lower income.

Perceptions of cheating, bludging and welfare dependency undermine community belief in the fairness of the tax and spend system. A taxation system that is seen to be unfair erodes a nation’s intangible social capital. While most of the tax debate is over the distribution of financial impacts, the tax system also has a highly symbolic function. The system of taxation and public spending is one of the principal means by which individuals and households connect with the wider society; paying tax gives us a stake in society.

8. *Some conclusions*

This paper has discussed the main ethical strands that run through the tax debate in Australia. The ethical centre point of the debate is the notion of distributive justice based on ability to pay. But the moral superiority of any particular distribution of the nation's wealth is tempered by other ethical considerations, including the role of deservedness, the right to the fruits of one's labour, taxes based on the desire to punish and reward and the new role of environmental ethics.

In the public mind, taxation is first and foremost a moral issue; economic considerations come a distant second. In the recent tax debate, the Government has not publicly challenged this priority of ethics over economics, yet its arguments centre on the economic benefits of tax reform. In other words, arguments about the putative economic gains from the GST take centre stage and issues of distributive justice are treated as subsidiary questions that need to be tidied up through compensation.

But since the economic gains from the GST Package are at best small, there seems to be a larger issue behind the current tax debate, and that is the distribution of tax cuts principally to benefit middle-income and wealthy households. There appears, therefore, to be a sharp divergence between public justification and private intent.

By any ethical code, the rich do not deserve the tax cuts promised to them in the GST Package, including the revised package agreed by the Australian Democrats. While variations to the tax package may be able to ensure that no one is worse off in real money terms, no-one disputes the fact that low-income earners will be significantly worse off in relative terms. A range of empirical studies on the determinants of well-being, and the common ethical standpoint based on notions of social fairness, both strongly suggest that the decline in the fairness of the taxation system will leave Australia a less happy society. Since the GST Package will

deliver only marginal efficiency benefits, if any, it is difficult to avoid the conclusion that the introduction of the GST will do little more than obscure the unfair allocation of expenditure savings made over the last three years to high-income households.

The failure to tax the rich adequately is corroding Australia's sense of cohesion and social fairness. When the rich do not pay their fair share, taxes fall more heavily on the middle classes. This in turn creates a political environment that focusses on incentives for the poor. One is drawn to the conclusion that the greater effort over the last decade devoted to tightening the social security system rather than tightening tax compliance by the rich has been a product of the failure of political courage.

The nature of the tax debate itself reflects a decline in ethical standards because the justice of the tax changes has been judged by financial outcomes rather than what is right. Even the welfare sector and the churches have been compelled to argue their case on philosophical grounds that are contrary to social cohesion and popular conceptions of justice. The utilitarian philosophy of economic rationalism, in which social benefit is judged by material consumption, has overshadowed the contractarian philosophy of ordinary Australians in which perceived fairness depends on where disadvantaged groups stand in relation to others.

The Government seems to have failed to persuade the public that its new tax system will not worsen income distribution or penalise low-income households. If the tax changes are implemented as proposed by the Government then most Australians will feel that they live in a less fair, and less happy, society as a result.

Of course, once we begin to talk about subjectively experienced loss we are in murky water. But the fairness of the tax system can never escape the murky waters, for it must always be judged by perceptions of how different distributions will affect different groups' sense of subjective well-being and on social judgements about the degree of deservedness of each group based on its history and social position.

It is difficult to avoid the conclusion that the tax debate in Australia has been marked by an appalling failure of political leadership, on all sides of politics. While the Australian Taxation Office has been willing to declare that tax payers have a duty

to contribute as citizens, politicians have refused to take up the moral case for a fairer tax system, despite the overwhelming public support for a fairer system. Strong moral statements about tax avoidance are rare. Mindful of where the power lies, political leaders have been far more determined to tackle 'dole bludging' by the poor instead of tax shirking by the rich. The GST package will result in a less fair tax system in Australia, and the argument that the GST will ensure revenue adequacy - and even the often-heard popular view that at least the consumption tax net will catch some the spending of the rich - have force because political leaders have not had the courage to develop and put the moral arguments for a fair and comprehensive system of direct taxes covering incomes, capital gains, wealth and inheritance.

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Although benefiting greatly from the views of a philosopher, a lawyer, a historian, two economists and a theologian, all views remain my responsibility.

- ¹ John Stuart Mill, *Principles of Political Economy* (University of Toronto Press 1965), p. 205
- ² The argument that only a fool would pay more tax than required may be countered by asking why anyone would give to charity. People give to charity because they feel good about helping the less fortunate or by protecting the environment, or because they feel that it is insurance against finding themselves in a position needing charity or because they believe it will calm social unrest. But precisely the same reasons could be advanced for paying more taxes than required.
- ³ Glenn Withers, David Throsby and Kaye Johnston, *Public Expenditure in Australia*, Commission paper no. 3, October 1994 (Economic Planning Advisory Commission, Canberra). The following observations are from pp. 32-39.
- ⁴ Withers *et al.*, *ibid.* p. 39. The use of the term 'consumers' is odd in this context since in stating their views on these issues respondents are clearly acting as citizens rather than consumers. The survey also showed strong levels of support for public rather than private provision of a range of goods and services. This strength of support for public ownership is surprising given that privatisation of public assets has been supported strongly by the major political parties and the press.
- ⁵ Irving Saulwick, Paper to National Tax Reform Summit, ACCI/ACOSS, 3-5 October 1996 (National Press Club, Canberra)
- ⁶ Saulwick also reported that 51% believe that large companies that try to minimise tax are 'ripping off other taxpayers', while 38% said they were 'only doing their job'.
- ⁷ Australian Catholic Social Welfare Commission, 'Moral Imperatives and the 1999 Tax Package', *Common Wealth*, Vol. 7 No. 1 April 1999; Uniting Community Services Australia, 'Taxation Reform: For a Fair and Equitable Society' (National

Assembly, The Uniting Church in Australia, June 1998)

- ⁸ John Rawls, *A Theory of Justice* (Belknap Press, Cambridge, Mass. 1971), p. viii.
- ⁹ Mill *op. cit.* p. 807.
- ¹⁰ Robert Nozick, *Anarchy, State and Utopia* (Basil Blackwell, Oxford 1974), p. 153.
- ¹¹ Kerry Packer recently defeated the Australian Tax Office in the Federal Court over a large tax bill on a foreign transaction. His victory was widely reported in the media in ways that implied that he was not paying any taxes. Stung by this public condemnation, the media mogul is reported to have instructed 'sources close to Packer' to claim that over 1989-1993 he declared assessable income of \$280 million, including \$3 million in Medicare levy (*Australian Financial Review* 6 May 1999).
- ¹² Nozick *ibid.* p 169
- ¹³ I have elsewhere described the neo-liberal hostility to government as 'misotely'. Derived from the Greek 'misos' meaning hatred and 'teli' meaning the constituted authority with the power to raise taxes (as in 'philately'), what the neologism lacks in elegance it makes up for in etymological pedigree. (See Australia Institute, *What Should Governments Do? Auditing the National Commission of Audit* Discussion Paper No. 8, July 1996)
- ¹⁴ The 'Tobin tax' on international financial transactions is motivated by the desire to dampen speculation but would probably win public support partly because it penalises currency speculators. The mere mention of the word 'speculator' elicits popular hostility.
- ¹⁵ See Julie Smith, *Taxing Popularity: The Story of Taxation in Australia* (Federalism Research Centre, Australian National University, Canberra 1993)
- ¹⁶ See especially Anthony Giddens, *The Third Way* (1998)
- ¹⁷ A point stressed by Nozick, *op. cit.*, pp. 160-164 to support his neo-liberal philosophical position.
- ¹⁸ Comprehensive income distribution figures are always hedged by caveats and are only available for dispersed periods. After a review of all of the evidence, Saunders concludes that there was an unambiguous increase in inequality in the 1980s (Peter Saunders, 'Longer Run Changes in the Distribution of Income in Australia', *The Economic Record*, December 1993). There is a mass of anecdotal evidence suggesting that inequality has worsened in the 1990s. Ann Harding's analysis indicates a small increase in inequality in the 1980s, a trend that has probably continued in the 1990s.
- ¹⁹ Michael Pusey, 'Incomes, Standards of Living and Quality of Life: Preliminary Findings from the Middle Australia Project' in Richard Eckersley (ed.), *Measuring Progress: Is Life Getting Better?* (CSIRO Publishing, 1998)

- ²⁰ Although the tax-free status of winnings followed a complex court ruling.
- ²¹ Julie Smith, *Gambling Taxation in Australia* Discussion Paper No. 16, The Australia Institute, Canberra, March 1998
- ²² Julie Smith, 'Is the Only Good Tax and Old Tax? A Historical Perspective on the GST Debate', Centre for Economic Policy Research Discussion Paper No. 398 (Australian National University March 1999)
- ²³ Smith 1999 *ibid.* p. 23
- ²⁴ Senate Select Committee On A New Tax System, Main Report, April 1999 (Parliament of Australia).
- ²⁵ Saulwick, *op. cit.*
- ²⁶ As Elizabeth Savage has pointed out, if equity were a consideration in the setting of consumption taxes, then tax rates should be higher on luxury goods (i.e. those consumed disproportionately by the rich). On the other hand, if efficiency is the most important consideration then indirect tax rates should be set to achieve the same proportional reduction in demand for each type of good, not the same proportional increase in price. Paper to National Tax Reform Summit, ACCI/ACOSS, 3-5 October 1996 (National Press Club, Canberra)
- ²⁷ Notable not least because some of the leaders of the resistance to 19th century utilitarianism were Christian philosophers and theologians.
- ²⁸ For an overview of some of this research see S. Dodds, 'Economic growth and human well-being' in M. Diesendorf and C. Hamilton (eds), *Human Ecology, Human Economy* (Allen & Unwin, Sydney 1997)
- ²⁹ These figures are from Harding and Warren's Option 3; see Table 9, page 474 of Senate Select Committee On A New Tax System, Main Report, April 1999 (Parliament of Australia).
- ³⁰ See H. Turton and C. Hamilton, *The GST Package and Air Pollution*, Discussion Paper No. 19, The Australia Institute, Canberra, September 1998
- ³¹ One of the best expositions, although now a little dated, is by Warwick Fox.
- ³² See especially the submission by Environment Australia to the Senate Committee which abandoned its position developed over the previous decade that price changes and market-friendly policies are the best way to solve environment problems.
- ³³ Address to the National Press Club, 20th April 1999.
- ³⁴ See the analysis by the Australia Institute released in June 1999 (www.tai.org.au).
- ³⁵ Alternatively, as John Quiggin argues, franked dividends should be taxed at the top marginal rate of 47 cents in the dollar (unless shareholders register their incomes at less than the level that attracts the top marginal rate).

- ³⁶ BBC News e-cyclopaedia 25th March 1999
- ³⁷ Anthony Giddens, *op. cit.*
- ³⁸ Although old-age pensions were first introduced in 1909.
- ³⁹ Rawls' argument that the principal objective should be to protect those at the bottom lends itself to a similar interpretation by focussing on absolute rather than relative outcomes.



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