The Politics of Tax Reform in Australia

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Abstract

Increasingly short-term, opportunistic, adversarial politics has consistently constrained and compromised significant and genuine tax reform in Australia. This article reviews the various attempts at tax reform since Asprey in the mid-1970s, assesses the existing tax system and attempts to set out the major essential ingredients of genuine tax reform in this country. Tax reform is seen as particularly urgent.

Key words: tax reform, Australia, policy constraints, Henry Review, Asprey

1. Introduction

Whenever one thinks of the issue of tax reform, and in particular the political and other processes on this issue, over the last 40 years or so, Monty Python and the search for the Holy Grail come to mind. Perhaps it is no coincidence that Python and Asprey’s Taxation Review Committee report both were released in 1975. I will leave it to you to decide, who, among the political and other players over this period, best encapsulates King Arthur and his Knights of the Round Table: Sir Bedevere the Wise, Sir Lancelot the Brave, Sir Robin the Not-Quite-So-Brave-As-Sir-Lancelot, and the aptly named Sir Not Appearing in This Film and Sir Galahad the Pure.

Perhaps it is also quite instructive to recall the section of Scene 3 of the movie, where Arthur is under some pressure to prove his legitimacy to a couple of peasants:

King Arthur: I am your king.
Peasant Woman: Well, I didn’t vote for you.
King Arthur: You don’t vote for kings.
Peasant Woman: Well, ’ow did you become king, then?
King Arthur: The Lady of the Lake, [angels sing] her arm clad in the purest shimmering samite, held aloft Excalibur from the bosom of the water signifying by Divine Providence that I, Arthur, was to carry Excalibur. [singing stops] That is why I am your king!

Dennis the Peasant: Listen—strange woman lying in ponds distributing swords is no basis for a system of government. Supreme executive power derives from a mandate from the masses,
not from some farcical aquatic ceremony.
King Arthur: Be quiet!
Dennis the Peasant: You can’t expect to wield supreme power just ’cause some watery tart threw a sword at you!
King Arthur: Shut up!
Dennis the Peasant: I mean, if I went around sayin’ I was an emperor just because some moistened bint had lobbed a scimitar at me they’d put me away!

In the run up to the Abbott Government’s promised review or White Paper on Australia’s tax system, it is important to pose the question of just how many of the country’s successive Arthurs, or their knights, since the mid-1970s really can claim ‘legitimacy’ in terms of genuine, appropriate and sustained tax reform, especially in light of the significant changes in Australia’s economic and social environment over those years and the policy challenges that have accompanied them.

The following section provides an overview of the key taxation reviews since the mid-1970s: Section 3 discusses the current tax policy settings, and Section 4 offers recommendations for successful tax and transfer reform.

2. Key Reviews since Asprey

In raising this question of genuine, appropriate and sustained tax reform, one certainly cannot ignore nor deny the considerable progress that has been made, albeit slowly, in reforming many aspects of Australia’s tax and transfer systems.

As Ken Henry pointed out in his opening address to the Post-Henry Review Conference in 2010, while ‘Asprey’s recommendations received little attention from the Whitlam and Fraser Governments . . . the issues it raised did not disappear’. Indeed, ‘the major reforms of the 1980s’ (capital gains tax, fringe benefits tax, dividend imputation, large cuts to personal and business income tax rates), the taxation of foreign-sourced income in 1990 and a broad-based consumption tax in 1998 ‘were all stimulated by Asprey. They all sought to broaden the base and, to the extent possible, cut the statutory rates of tax’.

Also, as Henry pointed out, ‘the Asprey Report provided more than a series of recommendations. It also provided an enduring vision for tax system design’. However, it is important to recognise that Asprey was delivered when the Australian economy was very insular and isolated, heavily protected and inward-looking and heavily regulated.

By the time the Asprey report was being implemented, Australia’s place in the world was very different, most notably having become an open economy with a floating exchange rate. This would certainly have produced different recommendations; for example, the revenue foregone by moving to an imputation system to benefit domestic savers might have been better directed at corporate tax deduction to attract foreign investment.

As Henry noted, there was an important difference in the approach of Asprey and the review that he led. Asprey ‘first settled the broad outline, or vision, of the kind of tax system that should be established over time, and worked back from that to determine what changes would best support that vision’. In doing so, Asprey moved beyond revenue adequacy as the sole motivation of tax policy, also seeking ‘to achieve a balance between the traditional tax policy objectives of simplicity, efficiency and equity’.

The Henry Review ‘added the principles of sustainability and policy consistency’ to the traditional tax policy objectives. As such, Henry did not focus on ‘optimal tax system design’, but rather ‘positioned the tax and transfer system in a broader public policy context’. As such, he focused on ‘how Australia’s tax and transfer system could best meet the nation’s opportunities and challenges over the next 40 years’, arising from deepening international integration, frequent and rapid technological advances, an ageing population, strong population growth with increasing cultural diversity, deepening stresses between human activities and ecosystems, and pressures affecting housing affordability and urban amenity.

To quote the review:

The review has aimed to set strategic directions for the future architecture of the Australian tax
and transfer system. It has not produced a one-off tax policy package, and it has not advanced the detailed design or timing of measures. Indeed, it is neither possible nor desirable to make all of these changes (138 recommendations) too quickly.

All the main provisos or qualifications were emphasised in order to set the review in its broader policy context: the settings of other policies, slow processes in changing market behaviour and the need for adjustment processes, the need for intergovernmental cooperation, the importance of overall fiscal and macroeconomic settings in a global context, and the need to give people time to readjust their affairs.

As a broad ‘pathway document’, the review clearly met all its objectives, although obviously there has been, and will continue to be, extensive debate—politically and among academics, policy types and numerous vested interests—recommendation by recommendation, as details are focused on and implementation is contemplated or attempted.

However, despite all this, the Henry Review has failed to meet the broader political, media and community expectations. Irrespective of what was commissioned or what was said with its delivery, the expectation was for a ‘tax package’, carrying with it the further expectation that the then government would be ‘under pressure’ to deliver it. To be fair to Henry, it should be noted that the concept of a ‘package’ was an unreasonable expectation, given that he was considering the tax and transfer system in isolation from a detailed consideration of government-spending trends and commitments. Nevertheless, those expectations were there, so when they were thwarted, the review was all too easily dismissed, politically, as ‘just another study/review/inquiry’, easily shelved by the media, although also all too easily ‘cherry-picked’, with attempts to implement just a handful of its recommendations.

Against this background, the government only picked some ‘high profile’ recommendations immediately, such as the mining tax, and when that backfired it then only chose smaller issues, quietly, leaving the bigger issues like savings and state taxes untouched.

It is still not widely recognised that the previous government actually progressed some 40 recommendations, almost one third. It is also not recognised that the Abbott Government has quietly unwound seven recommendations, without significant public comment linking them to the review’s recommendations. The Henry Review should remain a benchmark against which tax proposals and changes are judged, while it remains contemporary.

As something of a public policy geek, I initially got involved in politics by coming on secondment from the Reserve Bank of Australia (RBA) back in the mid-1970s, and then I subsequently entered politics in the mid-1980s in the belief that ‘good policy’ would prove to be ‘good politics’ with a fairly short lag.

Not only have I had to accept that the lags turned out to be somewhat longer and, I fear, are still lengthening as politics increasingly has become little more than a ‘game’ played out as point-scoring in the 24-hour media cycle, but it has been short-term, opportunistic, populist politics that essentially has prevented most rational policy debate and implementation, and delayed the processes of much-needed reform. Indeed, the history of the tax and transfer debate since Asprey is littered with examples of where short-term political expediency has delayed or prevented genuine reform. This article already has noted the inactivity on the Asprey recommendations under both Whitlam and Fraser.

I recall the enthusiasm with which I, and a number of other bureaucratic and political advisers, rushed proposals for broad-based reform, including tax reform with a goods and services tax (GST), into the Fraser Cabinet in the early months of 1978, following the government’s re-election with a then historic majority. The 1977 election was called early, as Fraser had felt it to be necessary to establish his legitimacy after the circumstances of the dismissal of the Whitlam Government in 1975. Those tax reform proposals were thrown out of Cabinet almost as fast as they had entered, on the grounds of ‘likely inflationary consequences’, even though the Fraser Government enjoyed a majority in both houses of Parliament and in circumstances where there was...
extreme pressure to bring the budget under control, even after the Lynch ‘razor gang’ had attempted quite dramatic cuts in government spending after the profligacy of the Whitlam years. Somewhat ironically, it then became necessary to resort to a ‘temporary tax surcharge’ in the 1977 budget to make it look ‘respectable’ and which then had to be made a permanent tax increase in the budget of the following year.

The Fraser years also saw the government and the Australian Taxation Office (ATO) left significantly behind by the so-called tax avoidance industry, with new tax schemes emerging almost daily, the most blatant of which was the so-called bottom-of-the-harbour schemes, which were quite simply raping the business and personal revenue base.

This cut both ways politically, with direct and influential business pressure to ‘lay off’ that was increasingly offset by broader community concern about conspicuous inequity, as well as some focus on the weakness of the system in relying on high income tax rates and inefficient and complex indirect taxes. The ATO was so far behind in its practical and legislative response that the government had to resort to enforcement by press release, with various schemes and practices ‘knocked off’ as of the date of the release, even though it took many months, sometimes longer, to adequately document and legislate against such schemes and to draft fairly wide-ranging anti-avoidance legislation.

The inactivity of the Fraser years and the aftermath of the tax avoidance era, in the context of a wages Accord, laid the basis for genuine reform with the 1984/1985 Hawke/Keating tax packages and Tax Summit. Surveys suggested that there was by then widespread community support for a package that closed the many tax avoidance loopholes, including by way of the introduction of new taxes on capital gains and fringe benefits, and that linked significant cuts in personal tax rates to the introduction of a broad-based consumption tax.

The White Paper that was taken to the Hawke Cabinet in 1985 argued persuasively that the ‘muddle through’ or ‘potholing’ approach to tax reform was no longer viable. However, once again, short-term political considerations dominated. First, the Tax Summit that was held to consider that White Paper ended with less-than-enthusiastic support for the proposed ‘reforms’. Second, against this background, Hawke reached a back-door, motel room ‘deal’ with then Australian Council of Trade Unions boss, Bill Kelty, to kill the consumption tax, with the result that much of the broad-based reform had to be sacrificed, leaving the focus on the so-called nasties of capital gains and fringe benefits taxes, and the closing of other loopholes.

It also should be noted that while Hawke and Keating were able to exploit the electoral mood that, in large measure, had been driven by the obscenity and inequity of the tax avoidance era to implement the base-broadening recommendations of Asprey, they failed to recognise the significance of Australia’s then open economy, which might have seen them not to push on with imputation etc.

My 1993 Fightback package similarly was very much a victim of short-term politics. The package promised significant reform of personal and business taxes, with significant reductions in income tax rates, the abolition of several state taxes, such as payroll taxes and various financial duties, and considerable simplification of personal tax and indirect tax arrangements, funded by substantial cuts in government spending and the introduction of a broad-based GST.

However, Keating ran a very effective scare campaign against the package, promising to deliver comparable income tax cuts without a GST; indeed, he even legislated those tax cuts, the so-called LAW tax cuts. I personally found this alarmingly dishonest and galling, especially from a man who, having had his 1984/85 tax package dudged by Hawke, had gone into the Parliament proclaiming effectively that he would die fighting for a broad-based consumption tax. However, his political death had its origins in his early post-election admission that he could not actually deliver the promised LAW tax cuts in the absence of a GST.

The introduction of a GST by the Howard Government in 1998 also was severely constrained by politics. Although the decision

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to introduce the tax was in response to pre-election pressure from the business community for the government to demonstrate its business bona fides, the government bowed to other political pressures in implementing the tax that severely constrained its effectiveness in both the short and longer term. Many in the government were jolted by the narrow margin by which they won—or survived—in 1998, compared with their winning margin in 1996. Hence, they sought to minimise further political difficulties in four respects.

First, the decision to commit all GST revenue to the states, while a clever, short-term political move, severely constrained its flexibility as a fiscal instrument moving forward and ensured that its distribution would be a significant and growing friction with, and between, the states.

Second, the ‘deal’ that was done with the Democrats to ensure passage through the Parliament significantly reduced the breadth of the tax. Unfortunately, as long as the GST is not applied uniformly, across the board, there will be pressure on government to grant ‘concessions’. Indeed, governments of either persuasion are easily ‘duchessed’ to do this, receiving positive support and/or media at little or no apparent cost, case by case. But, collectively, this rapidly can erode the tax base and breed a host of other political issues down the track.

Third, nobody ‘owned it’ at the political level, thereby leaving the design and implementation to the ATO and Tax Policy Division of the Treasury, which took the opportunity to do some ‘other things’, greatly complicating and increasing the cost of the implementation of the tax. Apparently, the Treasury also constrained further tax reform by insisting that none of the revenue raised from the GST could be used for personal tax reform, thereby neutering the ‘tax base switch’ that was an attractive and compelling reason for introducing the GST, over and above as a mechanism to reform the indirect tax system.

Fourth, the strength of the budgetary position gave the Howard Government the capacity to significantly, indeed, overcompensate the ‘losers’.

Finally, short-term politics also significantly constrained the Henry Review, as well as its implementation, specifically by the exclusion of consideration of the GST and tax-free superannuation. As these two, along with housing, are the principal areas of ‘concession’ in the existing tax system, the reform of which is fundamental to the tax policy objectives of efficiency and equity, this was a very significant constraint. However, Henry did still, nevertheless, recommend taxing superannuation earnings in retirement.

Although this excursion through tax review and reform efforts since Asprey has been brief, it should serve nonetheless to make the point that increasingly short-term, adversarial politics has at best compromised, and at worst wasted, the many opportunities that have emerged or been created for genuine reform.

3. Where Is Australia Now?

Although there has been significant progress in some areas, the bottom line is that Australians are left with a system that still visibly fails the three original, key objectives of tax policy, let alone to have adequately adjusted to the dramatic shifts in the global and domestic economic and social environment and the related policy challenges over that period or now in prospect.

The system has become even more complicated, less efficient and inequitable as, essentially, the outcome of a series of mostly ad hoc decisions, while sometimes in an attempt at genuine reform, but more generally to just raise revenue, to close ‘loopholes’ and so on. For example, in terms of complexity, on a rough count, the tax law is now approximately 5,500 pages, compared with about 1,200 in 1980—it was only 24 pages when the first income tax act was introduced in 1915.

Other measures also suggest significant costs due to complexity. Total taxpayer compliance costs now run somewhere between 1.5–2 per cent of gross domestic product (GDP), and relative to revenue collected business compliance costs could be as high as 10 per cent (higher for small businesses), about double that for individuals. There is also
evidence of greater reliance on tax agents by individuals. Over two thirds of taxpayers use tax agents, the second-highest number in the Organisation for Economic Co-operation and Development (OECD).

In terms of administration costs, it appears that the ATO and state revenue offices could be costing as much as 1 per cent of revenue collected, while Centrelink could cost some 3.5 per cent of payments made (these estimates exclude costs of policy formulation and of other agencies involved in the collection of revenue and administration of transfers).

Many factors have been identified as contributing to this complexity, most importantly:

• the large number of taxes levied by three levels of government, many of which raise little in revenue and lack consistency in rates, bases and in the administration of similar taxes by different governments;
• the many differences in income tests used to determine eligibility for different transfers and concessions;
• interactions between tax and transfer systems that obscure the signals about rewards for working and saving;
• the extensive array of tax expenditures, many of which are designed to achieve non-tax policy objectives through the tax system;
• inconsistencies in the taxation of different assets and entities and the multiplicity of arrangements for pricing Australia’s natural resources; and
• the difficulties in taxing cross-border flows of income.

In terms of inefficiency, the marginal excess burden analysis emphasises that the system overall is much more inefficient than others, with the most inefficient taxes currently imposed by the states, especially gambling and insurance taxes, stamp duties, motor vehicle registration, and payroll tax.

Somewhat ironically, the states and local governments have access to one of the most efficient taxes, namely land tax, but they generally have managed its use poorly. Interestingly, the Australian Capital Territory Government recently has moved to improve the efficiency of its tax base by starting to phase down stamp duties and replacing them with a land tax.

At the Commonwealth level, corporate taxes are particularly inefficient, mostly because it is applied to capital that is highly mobile due to the international competition for funds.

The inequities in the tax system are also well recognised. The system encourages wealth accumulation by borrowing and speculating, while penalising working and saving through deposits. It imposes the highest rates of tax on wage and salary income and savings in deposits, while imposing substantially lower rates on the same amount of income from other investments (property, shares and other assets), and particularly if those investments are funded by debt. The real effective rate of tax on savings can vary from negative (for those who are highly leveraged on property and superannuation savings by top-rate taxpayers) to almost 80 per cent on bank and building society deposits. The last five budgets of the Howard Government significantly lessened the burden on high wage and salary earners, while leaving those lower down the income scale at the mercy of the interaction of the tax and transfer systems, such that they may face effective marginal tax rates as high as 60 per cent, or even more.

Perhaps the points can be more effectively made, and the politics quite obvious, with a few specific examples. The GST exemptions, especially on education and health, have produced innumerable examples of inequity and inefficiency; for instance, a school excursion to Uluru is exempt, but not families who take their kids there because they did not go to a school that offered an excursion.

The mining tax was introduced while maintaining state royalties, which was both an unstable policy and guaranteed political difficulties; for example, the states quickly hiked their royalties in response to the availability of uncapped minerals resource rent tax credit and key state governments opposed it anyway.

Also, industry spread rumours that the superannuation profits of other industries, such as banking, were likely to be taxed next. This, in itself, has set back debate because it is
precisely what could be needed if it means that company tax could be removed by moving to a business-level expenditure tax.

The indexation of excises is a mess of inconsistencies that is driven by politics: fuel is no longer indexed, tobacco is indexed to wages, and alcohol is indexed to the consumer price index.

Hidden in benchmarks in the Tax Expenditure Statement is the inconsistency between the taxation of wine (based on value) and beer and spirits (taxed on volume). However, it is hard to understand the industry’s resistance to reform here as the wine equalisation tax is essentially a luxury tax that makes it difficult for producers to move up the value chain away from increasing competition from low-end South American and (with strong dollar) European producers.

The ‘simpler’ superannuation changes that were introduced in 2006 were both inequitable, in an intergenerational sense, and inefficient, satisfying banks with free deposits now.

If one steps back and surveys the key features and weaknesses of the present tax and transfer system, which clearly suggest the need for reform, the following elements could be emphasised. For a start, it is instructive to recognise that there are 125 taxes paid by Australians annually: 99 levied by the Commonwealth (recognising many agriculture and food levies), 25 by state and territory governments, and one by local government. These revenues are heavily concentrated, with over 90 per cent derived from just 10 taxes, reflecting 95 per cent of Commonwealth revenue, over 60 per cent of state and territory revenue, and 100 per cent of local government revenue.

Australia’s overall tax burden is low by OECD standards, although if employer superannuation contributions and private health insurance premiums (which are paid through taxes in many OECD countries) are added, Australia about matches the OECD average. Yet the country is faced with billions of dollars of expenditure commitments in the budget out for years, especially the Gonski education reforms, National Disability Insurance Scheme, infrastructure, National Broadband Network and an ageing population in the context of limited capacity to cut expenditures short of a large-scale restructuring of Commonwealth and state responsibilities to eliminate duplication.

It is notable that, despite the introduction of the GST and other adjustments to personal tax, the ‘tax mix’ has changed little since the 1950s. This is shown by the overreliance on corporate taxes, with an underreliance on personal and consumption taxes.

The GST has lost its edge as a growth tax, applying as it does to only about 60 per cent of expenditure. Expenditure on items subject to the GST is declining, both as a share of consumption spending and as a share of GDP, as the prices of exempt expenditures are growing faster. Increasing the coverage and possibly increasing the rate still provide the ‘easiest’ mechanism by which to fund the rapidly expanding expenditure demands, abolishing many of the lesser taxes and facilitating further reform of personal tax, with appropriate compensation. However, any change to the GST structure and distribution will need to be effectively driven by the states, the political difficulties of which should not be underestimated.

It also should be noted that the costs of administering the GST by the ATO, mostly because of exemptions, is as much as $1.36 per each $1,000 raised, compared with about 94 cents on average for other taxes.

The corporate tax system is in need of particular review and restructure for a host of reasons, including the expanding role of multinationals, changing corporate structures, the sophistication of financial innovation and the discriminatory effects of imputation, but always with an eye on international competitiveness and especially in the light of Australia’s ever-expanding presence in, and reliance, on Asia.

The states, territories and local governments raise about 20 per cent of total tax revenue through largely inefficient taxes and charges, some of which such as stamp duties and insurance levies are among the worst taxes. In the case of both payroll tax and stamp duties and land taxes, the states have consistently narrowed their tax base, attempting to buy the support of small businesses and first
homebuyers. They are now heavily constrained with rising expenditure commitments, especially in health and education, in the absence of a growth tax and faced with declining GST revenues. It is hard to see substantial progress here without a significant restructuring of the Federation, with a clear allocation of spending responsibilities to a single level of government and new funding arrangements.

Australia’s transfer system is relatively cheap and efficiently targeted and delivered by Western standards, although quite complex as a result. The effectiveness of the links with the tax system is still a significant issue, especially effective marginal tax rate disincentives, and the level of some benefits, such as NewStart and the aged pension, probably should be increased.

Finally, there is important debate to be had about how well the present tax and transfer system sits with the range of domestic and global policy challenges that were identified by Henry and others, especially sustainability, and the need to improve productivity, labour participation and national savings, and to sustain foreign investment.

The need to reform the tax and transfer system now should be an urgent priority. The likely economic, social and environmental challenges are very real. Specifically, governments face the medium-term challenges of making a transition to a low-debt, low-carbon world, constrained by significantly increasing demand for public services (education, disability, infrastructure etc.), an ageing population, mounting housing unaffordability and a productivity slump in a very competitive global environment where capital is more mobile and Australia’s high dollar compounds the nation’s cost un-competitiveness.

4. Ingredients for Successful Tax and Transfer Reform

The essential question here is how can Australia best move forward to achieve genuine and sustainable tax and transfer reform in what has become an extremely short-term-focused, adversarial policy and political environment. If governments are left to muddle on pretty much as in the past, the tax and transfer system threatens to become even more dysfunctional.

Yet both sides of politics seem to have severely constrained their options and capacity to respond already. Both are opposed to any change to the GST, housing or superannuation (the big concession areas), and both are committed to reducing personal and company taxation, even in the face of increasing demands for public services and the major structural policy challenges that have been identified above.

Significant reform necessarily will imply winners and losers, and any reform package will necessitate that some of those losers will need to be compensated. With the current and prospective structural weakness of the budget and the significant spending commitments and expectations already made by both sides of politics, stretching over the next decade or so, whoever is in government is most unlikely to ever enjoy the budgetary capacity to ‘buy’ electoral support via heavy compensation for substantial reform.

I believe this situation now calls for a ‘big’ package, calling for some ‘big’ and ‘decisive’ new thinking. A sizeable ‘tax mix’ switch probably will be fundamental, with a move away from corporate taxes to (say) a business spending tax and an increased GST that is extended across all expenditure, as well as expanded land taxes, funding a reform of personal taxation and the abolition of a host of the most inefficient taxes, to mention only the likely key elements.

Other improvements include a big step forward in terms of simplification, a dramatic improvement in efficiency, a sizeable adjustment to inequality, and a new tax and transfer system that clearly recognises the magnitude and significance of the policy challenges ahead of us for the next several decades, and that puts us in the best situation to handle them. No more muddling through. No more potholing. No more ad hocery.

The Abbott Government has cast its commitment to a White Paper review process in terms of wanting to ‘finish the job that the Henry Review started’. Many, probably the most hopeful, have interpreted this to mean a
desire to mull over and to sift through the remaining recommendations of the Henry Review, with a view to putting together a reform ‘package’ that could be taken to the next election, seeking a mandate to make the necessary changes in a second and/or subsequent term(s) of government. As such, it would fit well with what I believe will be the strategy outlined in the May budget, namely not an attempt to return the budget to surplus as soon as possible, but more likely (say) a 10-year strategy to achieve the desired budget surplus of (say) 1 per cent of GDP by around 2023/2024.

However, is such a process consistent with the likely politics of the period? Even if a viable tax and transfer package could be finalised before the next election, how much of it would have to be ‘compromised’ as the politics unfold? Or, to pose the question another way, how can politics be kept out of the process? The experience since Asprey certainly does not give one much hope, although it is worth drawing on the experience since Asprey to identify the key ingredients for a successful reform process.

Let us begin with an ‘ideal world’. First, and foremost, there is a need for political leadership. Indeed, very strong and persuasive leadership might be enough in itself to drive through reform. However, what is really needed is for someone to ‘own’ and ‘drive’ the reform process, to set the agenda, to control the development and explanation or selling of the detail, to challenge others to fall in behind, in support, and to manage the delivery.

Unfortunately, there are not many examples of this sort of leadership or capacity in the nation’s parliaments. However, Rudd came close in his early days. I recall the enthusiasm with which a newly elected Rudd promised a substantive response to the challenge of climate change. He was quite explicit as to the process and its timing: ratify the Kyoto Protocol, receive the Garnaut Report, to be quickly followed by a Green Paper, a White Paper, introduction of the legislation into the Parliament, and if that failed to pass, a double dissolution to win the right to force it through.

Rudd had the political mandate, and his strategy enjoyed widespread community support. All went well until he baulked at the last, double-dissolution hurdle, and as they say ‘the rest is history’. The reform and the constituency for that significant policy change was not only lost, but so too was his Prime Ministership.

Second, a political leader needs other ‘champions’ to back the cause, from academia and from others across the community who are not just pushing their own vested interests.

Third, it is important to recognise a significant constraint on building a constituency for reform. Nearly all the changes will have winners and losers, yet in Australia’s political system the losers tend to be more vocal than the winners, while the winners are more sceptical. It should be obvious, but the key problem in building a case for tax reform is convincing the potential winners that reform will lead to higher income and higher investment. They know what they have, and it is difficult for them to accept that they will have more, as well as more opportunities, as there also will be benefits in the form of new jobs that do not exist yet and new business and investment that do not exist yet.

Finally, there is a need for longer term, structural thinking and planning. For governments, this calls for thinking beyond the forward estimates and the next election. For political oppositions, it means rising above the negativity and short-term, opportunistic point-scoring in order to consider the national interest. For business, it means thinking beyond its existing capital stock. For unions, it means thinking of working cooperatively to grow the pie before asking for a slice. For the accounting and legal professions and others in the ‘tax industry’, it means a significant shift in focus from seeking to profit from the complexity, inefficiency and inequity of the system to how to better serve the greater community ‘good’ (pretty much as dentists did with fluoride). Then, they all need to work collaboratively in order to take the broader community along with them.

Too much to ask, you say? Short-termism, and particularly short-term politics, will
inevitably win out! Okay, let us go to the other extreme and pose the question of whether it is inconceivable that the Abbott White Paper might consider, given the overwhelming importance of the tax and transfer system moving forward and the likely fierce, negative politics against whatever will be proposed, that it would make more sense to consider the establishment of an independent, permanent, Tax Commission, an institution designed to be ‘beyond politics’.

Given the nature and constraints of Australia’s three levels of government, and specifically given that any significant tax and transfer reform package would need to be based on an agreement between those levels of government, preferably in the context of a reform agreement relating to the spending side of the Federation, to then be ratified by their respective parliaments, the nature and role of such a Commission would need to be carefully detailed and negotiated.

At one level, it simply could be empowered to provide fiercely independent advice to governments as to the key elements of a reform package, based on capacities and funding to seek submissions, commission essential research etc.—a productivity commission-type role. At the extreme, it could be truly independent of governments, with powers, in consultation with governments but only subject to broad parliamentary oversight, to analyse, develop, educate and deliver the reform package(s) it believes necessary over the next several decades—an RBA-type role.

You might say too extreme? I can remember sitting in the Monetary Policy Committee meetings of the Fraser Cabinet, day in, day out, watching a controlling group of farmers setting interest rates (official and bank) and Australia’s exchange rate, as a matter of their agrarian politics, when it seemed a far cry to imagine an independent RBA with the power and responsibility to set the official interest rate and to intervene in exchange markets, as they believed necessary. But, it happened.

I wrote a significant academic paper on the subject in 1980 that, to be kind, was greeted with some suspicion as to what planet I had moved to. However, the thinking was consistent with, and driven by, the work of a fiercely independent Campbell Inquiry and an in-government task force that handled the implementation of its recommendations by breaking them up into ‘bite-sized’ chunks for consideration by Cabinet, over time. This was handled in a way, built on a formidable community consultation and education process, that built irreversible expectations that in turn ensured that, before too long, enough deregulation and reform had occurred to virtually guarantee the emergence of a renewed RBA and market-determined interest rates and exchange rates and the licensing of a host of new banks and financial institutions, irrespective of which side of politics governed the country.

There are a couple of points to ponder in considering the possibility of a Tax Commission. Is genuine tax and transfer reform too important to be left to politicians? Are interest rates or tax and transfers more important to the economy moving forward? Assuming that Abbott wants to be remembered for a couple of key achievements in his Prime Ministership, it is hard to imagine a more lasting legacy than genuine, innovative tax and transfer reform.

To conclude, Australia needs a way to depoliticise the issue of tax and transfer reform, short of hanging around a pond like King Arthur, waiting for some tart to deliver Excalibur!

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