USE OF THESES

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The Changing Redistributional Role of Taxation in Australia Since Federation

by

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Declaration

The work presented in this thesis is original, and was undertaken by myself with the partial exception of Chapter 9. That chapter was co-authored with Mark D Dunstone, who contributed ideas and provided substantial comments on drafts, and drafted several paragraphs in the original paper.

[Signature]
Acknowledgments

Rather than initiating my career, this thesis has become more a chapter of it. That it has been completed owes something to the contribution of others, whom I would like to acknowledge.

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Over several years that this thesis has intruded on our family life, I have benefited from the tolerance of my children, Cathy, Gareth and Roan. I acknowledge in particular the significance of the encouragement and practical, intellectual and moral support I received from Mark Dunstone, my life-partner and dearest friend.

To conclude these genuflections to the significant: I have been deeply inspired by and am thankful for the wisdom and humanity of an Australian historian and an Australian economist, both long dead. Historian W.K. Hancock wrote about the virtues of ‘attachment, justice and span’ for a historian, and as a active Canberra citizen was a model of his words: ‘I am at war with bias, but equally am I at war with people who refuse to take sides when honest men stand up to be counted.’ Likewise, economist W. Scott told his professional colleagues in 1891 that ‘we want knowledge of economic truth because knowledge is power; and all who care whether they are or their neighbours are richer or poorer, overworked or unemployed, are by that very fact interested in the study and progress of political economy.’ In a scientific manner, Scott argued against the ‘economic truth’ presented by colleagues that women were not educable for a career other than as mother and wife.

I aspire to have done justice to both the historical and the scientific method demonstrated by these scholars. Whether or not I have succeeded, I accept Professor W.K Hancock’s advice to Phd candidates which, paraphrased, is that ‘while a scholar’s inquiries are never finished, the thesis must be’.

* Hancock 1976, p. 3.
* Scott 1895, p. 95.
Abstract

Despite the distinctiveness of Australia’s tax transfer system and its ‘wage earners’ welfare state’ approach to social protection, it is unclear what redistributitional role taxation has played and why it evolved the way it did. Understanding how governments managed redistribution in a federal system can provide historical insights of value for current policymaking. This thesis investigates how the redistributitional role of taxation has changed in Australia since Federation, how it was affected by economic change and fluctuations, and how it was influenced by Australia’s institutions of social protection and federal finance.

Key findings are:

- The redistributitional role of Australia’s tax system over the past century was shaped by economic integration and structural change, and by economic shocks. War was the occasion not the cause of change.

- Australia’s federal financial arrangements became increasing incongruent with economic and social integration during the interwar years. Income tax centralization and horizontal equalization were both responses to this problem.

- State Governments initiated mass income taxation to fund social security during the Depression: the Commonwealth followed precedent after 1942.

- Australia’s economic structure encouraged a system of financing social protection through taxation, its urban industries and primary producers finding common cause with unions and welfare reformers who opposed contributory social insurance. Australia’s income tax approach to funding social security was probably more progressive.

- The trend to mass income taxation since the Depression made income tax less progressive in structure. Its progressive effect is now mainly through the level of revenue it raises for redistributive public spending programs.

- Earmarking taxes for social security programs is now uncommon, but was a key political strategy supporting heavy income taxation. This may partly account for Australia’s relatively low tax/expenditure ranking among OECD countries.

- Unbalanced federal finance arrangements created tendencies — predicted before Federation — for ‘extravagant’ Commonwealth expenditures and ‘demoralised’ States. Restraining States’ public capital formation and encouraging ‘reckless remission’ of Commonwealth income taxation and public consumption spending, such arrangements inflated the economic cost of reducing inequality.

- Changing economic and demographic structures and vested industry interests also explain recent increases in Commonwealth tax subsidies such as for private health insurance, superannuation, infrastructure financing and capital gains.

- ‘Fiscal benefit confusion’ due to federal finance arrangements helps explain why Australia’s post-war taxation and public spending levels are comparatively meager. Tax resistance is also explained by the wage earners’ welfare state’s residual social security system — wage earners’ see their taxes as paying for ‘benefits’ to others without market incomes, rather than as earmarked contributions enhancing their own individual social security entitlement.

- The tax system is a valuable form of social capital, but suffers from ‘free rider’ problems. ‘Fiscal termites’ like tax avoidance and harmful tax competition erode it. Community distrust that taxes are justly levied and usefully expended risks creating a future society of impoverished ‘rational fools’.
• Australian tax history suggests how nations might respond as globalisation and ‘fiscal termites’ threaten their role in social protection through causing a ‘tax crisis of the nation-state’.
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