

## **Some Implications of Considering Australia's Taxation System within the Framework of Overall Australian Governance**

### **Recent Tax Reviews**

The recent review of Australia's Taxation System highlighted a key issue with regards to how taxation systems are reviewed and assessed in modern industrial economies. The key components of such reviews generally focus upon:

- economic efficiency,
- equity (horizontal and vertical),
- simplicity and administrative efficiency,
- transparency (i.e. no element of the tax system is surreptitious),
- flexibility (e.g. to changing economic circumstances)
- sustainable adequacy of funding and
- compatibility with taxation in other jurisdictions (e.g. state, local, international)

Indeed recent wholesale reviews of Australia's taxation systems embodied in the Henry and Ralph reviews (and many previous reviews of varying importance) addressed most, if not all of the above, to a greater or lesser degree. However all of these reviews are missing the most fundamental issue required when undertaking any taxation review:

*"How does the taxation system fit within the remainder of the governance and policy framework of Australia?"*

Key issues which should be of very high importance to the Forum which cannot be informed by these otherwise excellent reviews include:

- Does the system encourage socially beneficial behaviours by individuals in the context of:
  - o the criminal and civil legal system,
  - o government policy execution, service provision and payments
  - o the current attributes of Australia's population (e.g. age, wealth, health, aspirations, expectations) and environment
- Are the incentives in the tax system exacerbating, inhibiting or working in concert with the above key social incentive levers?
- Where there is remaining social injustice or current community issues, can the tax system be used as a powerful policy instrument to help address some of these social policy issues?

### **Example 1: Public Influence**

As just one example of a key issue within our society which could be addressed by the taxation system in response to a non-tax related social issues is public influence. Prior to the advent of television and the internet (when our democracy was conceived), public policy was influenced through more passive mediums such as newspapers, magazines and speeches. Public opinion was swayed through more reasoned argument and carefully sourced information. However, modern communication technology provides a means to influence public opinion through the agency of public relations and mass marketing. Today “sound bites” carry more weight than reasoned arguments due to their ability to convey a quick but shallow level of reasonable sounding argument. As a result, the proven medium of the television advertising and, more recently, the viral video clip can influence public opinion in ways never before possible. Individuals and organisations with sufficient funds can influence public opinion to a great degree and in fact, can win public policy arguments through pure weight of financial investment. Recent public discussion regarding the minerals tax in Australia and the global warming debate globally illustrate the point. This mass influence environment is new to our portfolio of laws and regulations (including our taxation related laws) and has essentially been left unaddressed (except in cross media ownership laws which are predicated on stifling excessive monopolisation of editorial influence).

Australia’s democratic system assumes that individuals are able to cogently choose between candidates based upon their belief that their chosen candidate will best represents their interests and desires in the making of public policy. But how is this possible when those with access to the greatest level of funds are able to persuade others to vote against the voter’s own interest? Australia’s democracy is not compatible with both modern telecommunications combined with excessive wealth concentration. Excessive wealth inequality begets (not necessarily in a corrupt dollars for votes way) representational inequality, which is anathema to Australia’s democratic process. One of the most powerful tools at the disposal of a government to address growing wealth inequality (in order to ensure it does not work against another important part of Australia’s governance - Australia’s democracy) is a progressive income taxation system. This is not to say that a progressive tax system is necessarily the best answer to concentrated public influence, but merely that the tax system should be considered as one tool available to address this social issue.

### **Example 2: Growing automation**

As a second example (and there are dozens more) of issues which have never been addressed by any review of Australia’s taxation system is the issue of the decreasing value of the labour and expertise of individuals within our economy. A quick review of recent factories (e.g. see the Ikea chipboard factory in Sweden, where a documentary was recently undertaken without showing a single employee on site) shows an increasing reliance on roboticised processes and automated monitoring equipment. In other words, smart capital is starting to replace the services of employees... both their labour and their expertise. But employees and suppliers are also consumers. Consumers provide the key demand side portion of Australia’s economy. Without demand, there is no economic activity. However automation is slowly replacing the labour and the expertise of the individual as key value creating inputs on the supply side and eventually the individual will have little of value to sell. How will the individual raise sufficient economic power to consume; thereby supporting the demand side of our economy?

Eventually Australia’s economy will have to transition to a time when labour and most expertise has little or no value. Many, or even most, individuals will be unable to raise funds through the provision of their labour and expertise. This will not happen suddenly and overnight but will happen gradually over

years and decades as more and more technology replaces more and more human vocations. This process is already evident... not just in manufacturing, but also in retail, services and agriculture - Australia's largest employing industries (see automated supermarket checkouts, ATMs, online services, and combine harvesters). How is Australia going to accommodate the "End of Work" in an orderly and socially beneficial fashion? Potentially one of the most powerful policy tools available to government is the taxation system, which can incrementally transfer the taxation burden from labour across to capital and then undertake wealth transfer to ensure an orderly transition to an automated future. Obviously this must be done whilst preserving the key incentives which encourage industriousness, entrepreneurship and innovation across as much of the Australian population as possible.

### **Consequences of ignoring the consequences**

As just the above two example policy issues demonstrate, taxation system reviews to date have been excessively narrow in their focus. This is not a criticism of our learned Australian tax academics, who are part of a global field which have always addressed tax system reviews in this way. Indeed some economists and tax academics have sneered at some governments' use of their tax systems as "social engineering"...implying that it is not an appropriate use of a taxation system. Of course, changing a taxation system without considering its social implications is a form of social engineering, but essentially leaving the outcomes to chance. As an example, non-taxation related policy reviews have had little impact on changes to Australia's taxation system, but changes to Australia's tax system have had enormous impact on those same issues (e.g. homelessness). It is time that we acknowledge that Australia's tax system has enormous current and potential influence on a very wide range of societal and behavioural issues and we can no longer make changes to the tax system without investigating the impacts such changes are likely to have on these policy issues. Any changes to our tax system must consider the impacts comprehensively or the tax system will continue to have un-investigated and unintentional social consequences.

One key counter-example is illustrative. One of the more comprehensive recent reforms to Australia's social policy that did integrate with the taxation system was retirement funding (i.e. superannuation). The effectiveness of the tax incentives in this system is still debated but at least they are in broad harmony with the social policy of Australia's government in this area and have received much international critical acclaim. Henry did also begin to look at how Australia's social security system interacted with the taxation system, but not on a comprehensive basis. To finish, I have listed further areas of government policy and action which are (or could be) massively influenced by Australia's taxation system, but are not considered (comprehensively) in tax system reviews to date<sup>1</sup>:

- Availability of housing and shelter
- Population growth
- Constituent life satisfaction (e.g. more equal societies report much higher levels of life satisfaction and happiness)
- Gender and racial equality
- Economic outcome fairness to industriousness, entrepreneurship and innovation (e.g. is it fair that a trader at a financial institution receives \$Ms per annum for merely transferring money whilst a cancer researcher receives less than \$100K per annum?)
- Geographic equity of government service availability

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<sup>1</sup> However these may have been considered by governments when making decisions relating to the tax system (note that when they do influence government decisions they are often written off as "political compromise").

- Foreign Policy
- Rights of States to self determination
- Market Externalities (e.g. pollution, self harming addictions like smoking and gambling) – some of these major issues have been lightly considered by past Tax reviews
- Consumer protection
- Public Health
- Public Criminality and white collar fraud

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